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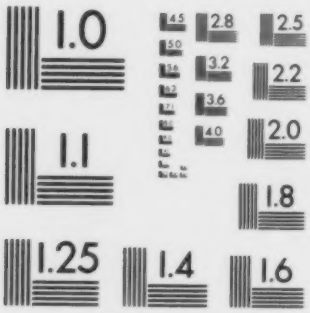

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Petroleum Monitoring Agency Canada
Agence de surveillance du secteur pétrolier Canada

Canadian Petroleum Industry
1989 Monitoring Report

First Six Months

Canada

Canadian Petroleum Industry

1989 Monitoring Report

First Six Months

Published by Petroleum Monitoring Agency Canada

90-02257/

Copies of this report are available on request from
Communications Branch
Department of Energy, Mines and Resources
580 Booth Street
Ottawa, Ontario
K1A 0E4

Aussi disponible en français

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Cat. No. M27-22/1989-1E

ISBN 0-662-17431-3

The Honourable Jake Epp
Minister of Energy, Mines and Resources
Ottawa, Ontario

Dear Minister:

I am pleased to submit this report which describes the financial performance of the oil and gas industry in Canada during the first six months of 1989. The report is based on data from 127 companies accounting for some 90% of total revenues of the petroleum industry. Therefore, the data reflects fairly the performance of the entire industry in Canada.

Overall industry cash flow during the first six months of 1989 rose 4% to $4.6 billion as a result of the partial recovery of crude oil prices from 1988 levels. In addition, cash flow improvements reflected higher sales volumes of marketable natural gas more than offsetting lower prices.

The uncertainty created by wide fluctuations in crude oil prices over the past four years, culminating with the price decline in 1988, to the lowest average level in nearly a decade, produced a dampening effect on capital expenditures. Overall capital outlays decreased 20% to $3.5 billion in the first six months of 1989. This decrease together with the small rise in cash flow resulted in a reinvestment rate of 73%, a drop from the reinvestment rate of 94% in the first half of 1988.

Respectfully submitted,

Pierre Camu
Chairman

December 5, 1989

New and Noteworthy

New information is presented in this Monitoring Report and, as in the past, it is crucial that the report be read with a number of caveats to which attention is drawn under "Noteworthy".

New

- Chart 3, showing crude oil and marketable natural gas volumes together with their respective average prices on a semi–annual basis, has been provided on page 20 along with the upstream analysis.

Noteworthy

- A number of Canadian–controlled companies switched from the Full Cost to the Successful Efforts method of accounting. This change necessitated a restatement of the financial results, back to the inception of the companies' activities. The restatement resulted in write–offs of over $3 billion of fixed assets, with the corresponding changes in deferred taxes and shareholder equity, but did not affect the levels of cash flow. As a result, total assets reported in the 1988 Monitoring Report are over $3 billion higher than those published for the beginning of the current period in this report.

- Prior to the sale of Texaco Inc.'s 78% interest in Texaco Canada Inc., Texaco Canada Inc. transferred interests in several foreign and Canadian properties to Texaco Canada Petroleum Inc., then a wholly owned subsidiary of Texaco Canada Inc. Texaco Canada Inc. declared a dividend 'in specie' of one common share of Texaco Canada Petroleum Inc. for each outstanding share of the corporation.

- A number of companies transferred assets to newly created entities (such as partnerships), and elected more than one year–end in 1988 for tax purposes, in order to rationalize their operations and to adjust to the changes in the tax system. As the year–ends of the new entities extend beyond the survey period, their results were not consolidated with the reporting companies. Consequently, large unused tax pool balances were not shown at the end of 1988, although the correponding property remained within the same reporting entities. This anomaly will not exist in the 1989 fiscal year, when a full year of activity for the new entities will be consolidated with the reporting enterprise.

- Significant restructuring of the Canadian petroleum industry continued in the first six months of 1989, due to numerous acquisitions and mergers. Of particular interest were the following, shown in chronological order:
  - — Lasmo Canada Inc. acquired 96% of Tiber Energy Corporation.
  - — Sceptre Resources Limited was successful in its takeover of Oakwood Petroleums Ltd.
  - — Imperial Oil Limited acquired Texaco Canada Inc. Subsequently, Texaco Canada Resources changed its name to Esso Resources Canada. Texaco Canada Inc. now operates under the name of McColl–Frontenac Inc.
  - — Conquest Explorations Ltd. purchased 90% of Universal Explorations Ltd.
  - — Norcen Energy Resources Limited received shareholder approval to purchase Westmin Resources Limited's oil and gas assets.
  - — Noranda Inc. increased its ownership of Canadian Hunter Exploration Ltd. from 87% to 100%.
  - — Bow Valley Industries Limited acquired producing assets of Bonanza Oil and Gas Ltd.
  - — Petromet Resources Ltd. purchased Bonanza Oil and Gas Ltd. from Poco Petroleums Ltd.
  - — Paramount Holdings of Bermuda acquired Excel Energy Inc.
  - — PanCanadian Petroleum Limited purchased Husky Oil Operations Ltd.'s oil and gas interests in the Westerose and Benjamin Creek areas.
  - — Saskatchewan Oil & Gas Corporation acquired ICG Resources Ltd. from Inter–City Gas Corporation.
  - — Kerr–McGee Corporation acquired Maxus Energy Canada Ltd., now known as Kerr–McGee Canada Ltd.
  - — Manoil consolidated its two subsidiaries, Pembina Resources Limited and Western Decalta Petroleum (1977) Limited into Pembina Resources Limited.
  - — Parkland Industries Ltd. purchased oil and gas properties from Armenco Ltd.
- Appendix A1 'Year in Review' sets out in detail events worthy of note.
- Many numbers in the body of the report are rounded to improve readability. Percentage changes, however, are calculated on the basis of detailed figures shown in Appendix B.
- While 134 companies have reported to the PMA (see Appendix E), this report is based on data from 127 companies. Seven small companies have been excluded due to the lack of comparable data for the preceding period.

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Summary and Highlights

General Economic Background

Canada's real Gross Domestic Product (GDP) grew at an annual rate of 1% to $458 billion (1981 dollars) during the first half of 1989, as private capital formation was up by 8%, driven by machinery and equipment purchases. Consumer and government expenditures rose by slightly more than the increase in real GDP, while imports rapidly increased, and exports declined marginally.

Inflation as measured by the Consumer Price Index was 3.6% during the first half of 1989 against 3.8% in 1988. Unemployment dropped from 7.6% at the end of 1988 to 7.3% in June 1989 as employment grew from 11.9 million to 12.2 million persons.

Financial Performance

Total Operations

- Profits: *Net income from total operations declined 7% or $90 million to $1.1 billion in the first six months of 1989 vs. 1988.* Higher crude oil prices, increased marketable natural gas sales volumes, lower royalties and current taxes were more than offset by increased operating costs, interest expenses and non–cash charges.

- Total net income for foreign-controlled companies fell 18% to $625 million in the first half of 1989 as lower net income was recorded for upstream, other Canadian operations and foreign activities, although net income was higher for downstream operations. Net income for Canadian-controlled companies rose 11% to $490 million as increases for upstream and downstream operations more than offset income declines for other Canadian operations and foreign activities.

- The rate of return on shareholders' equity for the total Canadian petroleum industry was 5.3% in the first six months of 1989 against 6.3% in the corresponding 1988 period. The five-year average rate of return for the period ending June 1989 decreased to 4% from an average of 4.9% for that ending in 1988. The return on the capital employed by the Canadian petroleum industry in the first half of 1989 declined to 4.9% from 5.2% in 1988.

Upstream Operations

- *Revenues from upstream operations* rose 2% to $8.6 billion in the first six months of 1989. The effect of lower crude oil production was more than offset by higher realized crude oil prices while increased marketable natural gas volumes overcame lower natural gas prices. Increased revenues together with reduced interest charges, royalties and income taxes more than offset higher operating costs and non–cash charges. Upstream net income rose 12% to $515 million in the first half of 1989 over the corresponding 1988 period. Cash flow rose 7% to $3.3 billion.

Downstream Operations

- *Total downstream revenues* increased 3% to $13.5 billion due to an increase in sales volumes. In addition, higher revenues resulted from the flow through to consumers of higher federal sales and excise taxes, up 8%. Net income rose 16% to $685 million in 1989 from $590 million in the first half of 1988 on the strength of the oil products business segment.

Net income for oil products operations rose 29% to $420 million in the first six months of 1989 causing the return on capital employed to increase to 8.1% from 6.1% in the corresponding 1988 period.

Sources and Uses of Funds

Internal Cash Flow

- *Internal cash flow from total operations increased 4% to $4.6 billion* in the first six months of 1989 due primarily to the effects of higher crude oil prices and natural gas sales volumes, lower royalties, cost of goods sold and current income taxes. This more than offset the impact of higher sales and excise taxes, and increased interest and operating costs. Cash flow increased in all industry segments with the single exception of 'other Canadian operations'.

Net External Sources

- *Net external sources of funds were $5.1 billion for the first half of 1989 vs. an outflow of $815 million in the first six months of 1988.* New long-term debt exceeded redemptions by $3.6 billion compared with $865 million of net redemptions in the first half of 1988. New equity, net of repurchases, was $1.4 billion in 1989 compared with $50 million in the first six months of 1988.

Discretionary Uses

- In the first half of 1989, the industry decreased its net capital outlay by 18% to $3.4 billion. Dividend payments rose 16% from $685 million to $795 million. In the first half of 1989, the excess of 'All Other Uses' over 'All Other Sources' resulted from the purchase of assets and takeover activity. The net draw-down of working capital of $1.2 billion in the first half of 1988 was in contrast to the smaller draw–down of $85 million in the working capital position in the same 1989 period.

- *Incentives Grants* (as deductions to gross capital expenditures) were down from $159 million in the first half of 1988 (partly PIP grants) to $104 million (mainly CEDIP and CEIP grants) in the corresponding 1989 period.

Capital Expenditures

- *Total Capital Expenditures* in the first six months of 1989 decreased 20% or $880 million to $3.5 billion, with domestic expenditures decreasing 21% and outlays abroad rising 1%. Upstream spending, representing 75% of the total, fell 24% to $2.7 billion.

- *Exploration Expenditures in Canada* fell 21% to $1.3 billion in the first half of 1989, with expenditures decreasing 18% in the provinces and 35% on Canada Lands. Expenditures on Canada Lands accounted for 14% of the total vs. 17% in the first six months of 1988. Outlays by foreign-controlled companies were 13% lower in 1989 than in the first half of 1988, while those for Canadian-controlled companies were down by 29%.

- *Downstream Expenditures* declined 18% to $430 million in the first six months of 1989 over 1988. Reduced expenditures for refineries more than offset increased spending on petrochemical plants and marketing outlets.

Reinvestment Rates

- Net capital expenditures absorbed 73% of the industry's internal cash flow in the first half of 1989, down from 94% in 1988. Upstream capital expenditures totalled 77% of cash flow, down 30 percentage points from the first six months of 1988.

Dividends

- *Dividends rose 16% to $795 million in the first half of 1989.* Dividends by Canadian-controlled companies increased 35% to $335 million for a payout rate of 68%. Payments by foreign-controlled companies rose 5% to $465 million for a payout rate of 74%. A number of unique transactions accounted for the increase in dividends paid by both foreign– and Canadian–controlled companies.

Comparative Performance: Petroleum and Other Industries

Net Income

- According to Statistics Canada data, the petroleum industry's net income from Canadian operations – exclusive of Crown corporation results – decreased 31% to $1 billion in the first half of 1989, compared with a 3% increase to $11.9 billion for all other non-financial industries. The petroleum industry's net income for 1989 represented 8% of all non-financial industries' net income.

Capital Expenditures

- The petroleum industry's capital expenditures in Canada decreased 23% in the first six months of 1989 over 1988. Capital expenditures of non-financial industries excluding petroleum increased 5% with the result that the petroleum industry represented 16% of total non-financial industries' capital expenditures compared with 21% in the first half of 1988.

The following summaries and the related sections of the report compare the full year 1988 with the full year 1987 for the subjects mentioned. The underlying data were not available when the 1988 Monitoring Report was prepared.

International Flows of Funds: 1988 vs. 1987

The international flows of funds related to long-term capital movements to and from the Canadian petroleum industry resulted in a net outflow of $1.9 billion in 1988. The outflows from all types of current account transactions more than offset an inflow of $195 million from capital account transactions.

Interest and dividend outflows (net of inflows) of $700 million and $1.2 billion respectively, coupled with net external business service payments of $195 million, resulted in an overall net current account outflow of $2.1 billion.

Capital Structures: 1988 vs. 1987

Total capital employed in the Canadian petroleum industry was $62.9 billion in 1988, up from the $61.8 billion employed in 1987. Long-term debt represented approximately 33% of industry capitalization in 1988 and equity 67%, a 4 percentage point increase in the equity component compared to the previous year.

Income Tax-Related Data: 1988 vs. 1987

Taxable income of the petroleum industry fell 39% to $2.6 billion in 1988 from $4.2 billion in 1987 due to a weak upstream segment affected by the lowest average crude oil and natural gas prices in nearly ten years. Consequently, income taxes payable to federal and provincial governments declined 39% to $830 million in 1988 compared with $1.4 billion in 1987.

1

Financial Performance

Total Operations: Net Income and Cash Flow

Petroleum industry revenues rose 2% to $24.1 billion in the first six months of 1989 over the same 1988 period. Crude oil prices exceeded 1988 levels and higher sales volumes of marketable natural gas increased upstream revenues, and greater demand for oil products caused downstream revenues to rise.

Net income from total operations declined 7% ($90 million) to $1.1 billion in the first six months of 1989 vs. 1988. Upstream profits rose 12% ($55 million) to $515 million in the first half of 1989 largely due to higher crude oil prices and lower interest expenses. Downstream profits rose 16% ($95 million) to $685 million on the strength of the oil products segment, up $95 million, while the petrochemical segment's net income remained unchanged from the first six months of 1988 (Appendix B9). However, these improvements in earnings were more than offset by declines in the other two business segments. Net earnings of other Canadian operations fell from a profit of $70 million to a loss of $170 million in the first six months of 1989 as the result of higher interest expenses of $200 million. Profits of foreign operations declined 3% to $85 million.

Internal cash flow from all business segments increased $180 million (4%) to $4.6 billion. The rise was due to:

- higher crude oil prices;
- increased marketable natural gas sales volumes;
- lower royalty payments; and
- lower current income taxes.

Partly offsetting these positive factors were higher operating costs (up 7%), interest charges (up 13%) and federal sales and excise taxes (up 7%) in the first six months of 1989.

Table 1.
Overview of Total Operations in billions of dollars[a]
First six months

	1988	1989	Change	Change %
Total Revenues	**23.5**	**24.1**	**0.6**	**2**
less:				
Operating Costs	5.3	5.7	0.4	7
Interest Expenses	1.1	1.2	0.1	13
Non-income Taxes and Royalties	3.4	3.5	0.1	4
Other Cash Expenses	8.7	8.6	-0.1	-1
Income Taxes				
Federal	0.5	0.4	-0.1	-20
Provincial	0.1	0.1	-	-30
Internal Cash Flow	**4.5**	**4.6**	**0.1**	**4**
less:				
Write-offs[b]	3.0	3.3	0.3	9
Deferred Taxes	0.2	0.2	-	-15
Net Income before Unusual Items	1.2	1.1	-0.1	-5
Unusual Gains	-	-	-	-
Net Income	**1.2**	**1.1**	**-0.1**	**-7**

Notes:
(a) Figures may not add due to rounding. See Appendix B1 for detail by operating segment.
(b) The components of 'write-offs' are non-cash charges and exploration and development expenditures charged to current operations.

Net Income by Sector

Net income for the petroleum industry decreased 7% ($90 million) to $1.1 billion in the first six months of 1989 over the same 1988 period. While net income for Canadian-controlled companies rose 11% ($50 million) to $490 million, that for foreign-controlled companies fell 18% ($140 million) to $625 million.

Canadian-controlled companies reported profit increases for upstream and downstream operations which more than offset income declines for other Canadian operations and foreign activities. The increase in overall revenues of 3% together with lower royalties, reduced non-cash charges, and lower current taxes produced the 11% rise in net income in the first half of 1989. Cash flow for this sector rose 3% to $1.9 billion in the first six months of 1989 (Appendix B6).

Net income for *foreign-controlled companies* fell 18% to $625 million in the first six months of 1989. Lower net income was recorded for upstream, other Canadian operations and foreign activities, while net income was higher for downstream operations. The impact of a 2% increase in overall revenues was offset by increases in operating costs, non-cash charges, and sales and excise taxes. Cash flow, unaffected by non-cash charges, rose 5% to $2.7 billion in the first six months of 1989 over 1988 (Appendix B7).

Table 2.
Net Income by Sector and Segment in billions of dollars
First six months

	1988	1989	Change	%
Canadian-Controlled Companies				
Upstream	0.2	0.3	0.1	39
Downstream	0.2	0.2	–	25
Other[(a)]	–	–	–	–
Total Canadian-Controlled	**0.4**	**0.5**	**0.1**	**11**
Foreign-Controlled Companies				
Upstream	0.2	0.2	–	– 12
Downstream	0.4	0.5	0.1	12
Other[(a)]	0.1	– 0.1	– 0.2	–
Total Foreign-Controlled	**0.8**	**0.6**	**– 0.2**	**– 18**
Total Industry	**1.2**	**1.1**	**– 0.1**	**– 7**

Note:
(a) Comprises net income generated by foreign activities and other Canadian operations. For more detail see Appendices A12, B6 and B7.

Rates of Return

Return on Equity

The rate of return on average shareholders' equity for the total Canadian petroleum industry was 5.3% in the first six months of 1989 against 6.3% in the corresponding period of 1988. The decrease in profitability was due to the depressing effects of higher operating costs, interest expenses and non-cash charges. Canadian–controlled companies had a 5% return on equity while their foreign–controlled counterpart had a 5.6% return. The industry's average rate of return on equity for the five-year period ending June 1989 decreased to 4% from an average of 4.9% for the period ending in 1988 (Appendix A13).

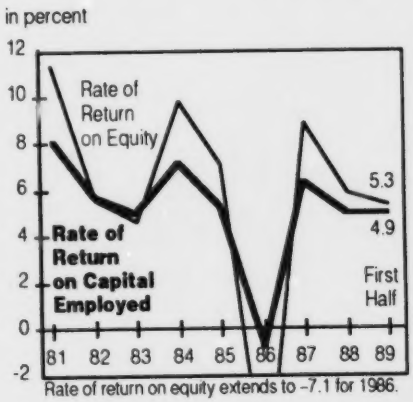
Return On Capital Employed

The return on average capital employed by the Canadian petroleum industry in the first six months of 1989 declined to 4.9% from 5.2% in the first half of 1988. The return on capital employed averaged 4.1% for the five-year period ending June 1989 vs. 4.6% at the end of 1988. Upstream return on capital employed declined to 3.7% from 4% in the first half of 1988, while the downstream return rose to 8.1% in the first half of 1989 from 6.1% in the corresponding 1988 period.

Foreign-controlled companies obtained a 5% return on capital employed for total operations in the first half of 1989, down from 6% in 1988. The upstream segment of this sector saw its return on capital employed fall from 4.5% to 3.5% in the first six months of 1989.

The *Canadian-controlled* sector's rate of return on capital employed was 4.8% in the first half of 1989, up from 4.2% in 1988. The rate of return on upstream capital employed was 3.9% vs. 3.3% during the first six months of 1988.

Chart 1
Rates of Return: Petroleum Industry



Rate of return on equity extends to –7.1 for 1986.

Table 3.
Rates of Return by Sector and Segment in percent
First six months

	Canadian-Controlled		Foreign-Controlled		Total Industry	
	1988	1989	1988	1989	1988	1989
Return on Equity						
Total Operations	4.7	5.0	7.9	5.6	6.3	5.3
Canadian Operations	4.8	5.1	7.4	5.0	6.1	5.0
Return on Capital Employed						
Total Operations	4.2	4.8	6.0	5.0	5.2	4.9
Canadian Operations	4.4	5.0	5.9	4.9	5.2	4.9
Upstream Operations	3.3	3.9	4.5	3.5	4.0	3.7
Downstream Operations[a]	4.4	6.0	7.2	9.3	6.1	8.1

Note:
(a) Downstream, in this table, represents oil products operations only, i.e. it excludes petrochemical and other downstream operations.

Interest Coverage[1]

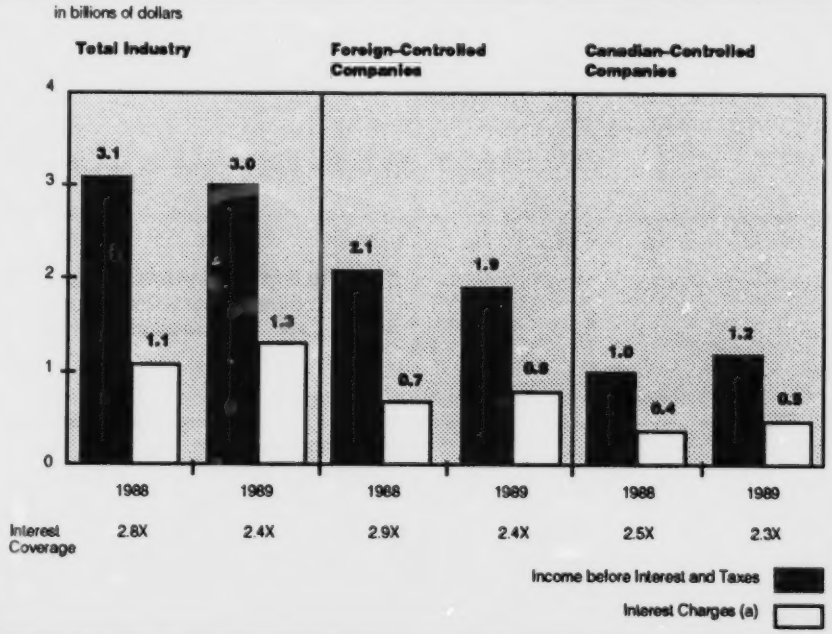
For the industry overall, income before taxes, extraordinary items and expensed interest was 2.4 times total interest charges, both capitalized and expensed, down from the 2.8 times coverage in the first six months of 1988. This deterioration in interest coverage was the result of both a decline in industry income and an increase in overall interest charges.

Net income before taxes and interest for Canadian-controlled companies was $1.2 billion in the first six months of 1989 – up 15% from the level of $1 billion recorded in the first half of 1988. Simultaneously, interest charges increased by 26% to $510 million, primarily caused by a 19% increase in long-term debt and higher interest rates. Consequently, the interest coverage for this sector declined to 2.3 times in the first six months of 1989 from 2.5 times in the corresponding 1988 period.

Foreign-controlled companies' interest coverage moved to 2.4 times in the first half of 1989, down from 2.9 times in the same 1988 period. The decrease resulted from an 11% decline in income before taxes and interest while interest charges rose 7%.

(1) This analysis of interest coverage relates to total industry activity since there is neither consistency nor uniformity in the way companies allocate interest expenses among the various business segments – upstream, downstream, other Canadian and foreign.

Chart 2.
Comparison of Interest Charges with Income before Interest and Taxes
First six months



Note:
(a) Interest charges shown include both expensed and capitalized amounts. See Appendix A19 for more detail.

Net Income by Company Group

Integrateds and Refiners

A total of 15 companies grouped in the category 'integrateds and refiners' make up almost the entirety of the downstream segment in terms of revenues, and account for 34% of upstream operations. Net income for the group increased 3% or $20 million to $820 million in the first six months of 1989. Higher net income from upstream and downstream operations (especially a strong oil products segment) more than offset lower profits in 'other Canadian operations' and foreign activity (Appendix B2). In 1989, this sector raised a considerable amount of debt for takeover activity. The associated interest charges were allocated to 'other Canadian operations' resulting in a net loss in this industry segment. Had the interest charges been distributed more evenly by industry segment, and not as a corporate expense, net income for upstream and downstream operations would have been lower in the first six months of 1989. Overall internal cash flow declined 2% to $2 billion in the first six months of 1989 over the corresponding 1988 period.

Oil and Gas Producers

The 112 'oil and gas producers' are active almost exclusively in upstream operations. Net income declined 28% to $295 million in the first half of 1989 over the same 1988 period. Profit declines were recorded for all industry segments with the single exception being foreign operations.

The decline in the group's net income resulted from increased non-cash charges which more than offset lower interest expenses, royalties and current income taxes. Internal cash flow, unaffected by non-cash charges, rose 9% to $2.6 billion in the first half of 1989 over 1988 (Appendices B3 to B5).

Table 4.
Net Income by Company Group in billions of dollars
First six months

	1988	1989	Change	Change %
Integrateds and Refiners				
Upstream	0.2	0.3	0.1	61
Downstream	0.5	0.7	0.2	20
Other[a]	0.1	– 0.2	– 0.3	–
Total Integrateds and Refiners	**0.8**	**0.8**	**–**	**3**
Oil and Gas Producers				
Upstream	0.3	0.2	– 0.1	– 25
Downstream	–	–	–	– 38
Other[a]	0.1	0.1	–	– 31
Total Producers	**0.4**	**0.3**	**– 0.1**	**– 28**
Total Industry	**1.2**	**1.1**	**– 0.1**	**– 7**

Note:
(a) Comprises net income generated by foreign activities and other Canadian operations. For more detail see Appendices B2 and B5.

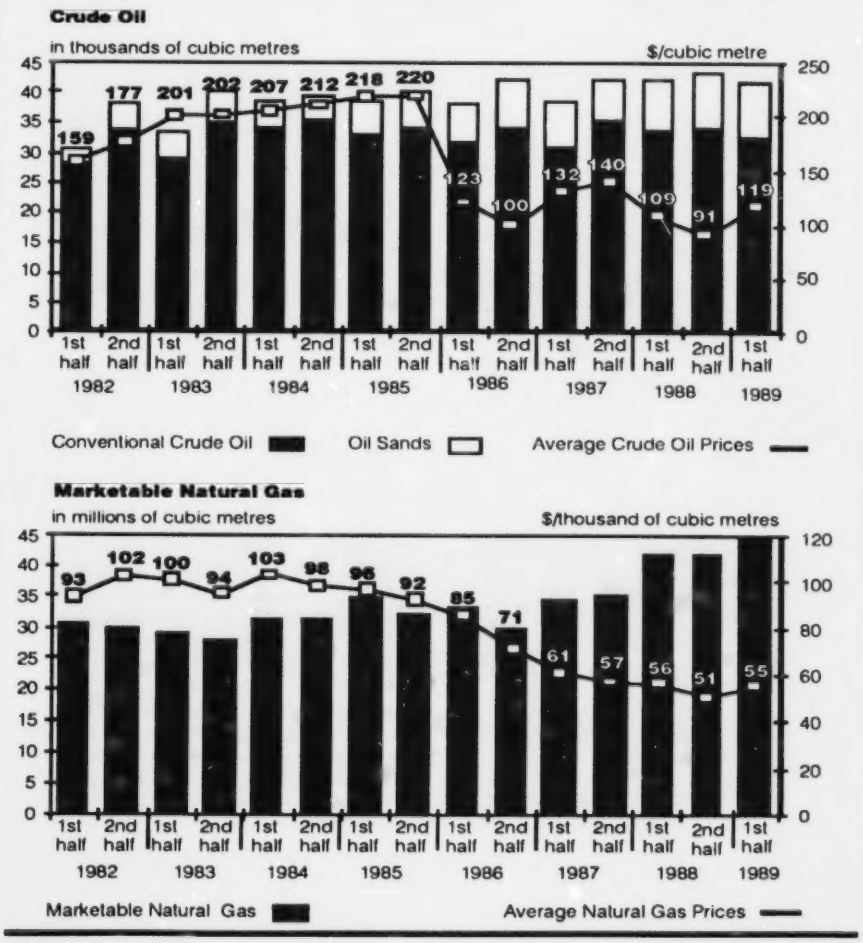
Upstream Segment

Revenues from upstream operations rose 2% ($175 million) to $8.6 billion in the first six months of 1989 (Appendix B1). The impact of lower crude oil production (down 2%) was more than offset by higher realized crude oil prices[1] in the first half of 1989 resulting in a revenue increase for crude oil of $340 million. In addition, a 7% rise in the production of marketable natural gas overcame the impact of gas price declines and caused natural gas revenues to increase $100 million. Sulphur revenues declined 33% primarily as a result of 41% reduction in demand.

The average price received for crude oil (including production from oil sands) during the first half 1989 was 9% higher than in the corresponding 1988 period – $119 per m^3 ($18.95 per bbl) vs. $109 per m^3 ($17.33 per bbl). Prices for natural gas declined 2% in the first six months of 1989 to an average of $55 per 10^3m^3 ($1.56 per Mcf) from $56 per 10^3m^3 ($1.59 per Mcf) in the same 1988 period.

(1) Crude oil and natural gas prices realized by Canadian producers are a reflection of the opposing influences of a higher international price and a stronger Canadian dollar relative to the U.S. dollar. International oil prices are generally quoted in U.S. dollars and, as the Canadian dollar strengthens, the Canadian dollar value of oil prices declines. However, the increase in the international oil price more than offset the rise in the Canadian dollar.

Chart 3.
Oil and Gas Production and Prices: 1982 – 1989



Upstream net income rose 12% (or $55 million) to $515 million in the first six months of 1989 over the corresponding 1988 period. An increase in revenues together with reduced interest charges (down 16%), lower current and deferred taxes, and reduced royalty payments more than offset higher operating costs and increased non-cash charges (Appendix B1). Unit operating costs increased from $31.20 m^3 in the first six months of 1988 to $31.85 m^3 in the same 1989 period as larger volumes of crude oil were produced from the higher cost oil sands operations (up 8%) while production of conventional crude oil declined 4%. Internal cash flow for the upstream segment rose 7% or $220 million to $3.3 billion in the first half of 1989 (Appendices B1 to B8).

Canadian-controlled companies reported an increase of $85 million (39%) to $300 million in upstream net income. The net income rise resulted from higher revenues coupled with lower royalty payments and reduced non-cash charges (including deferred income taxes) more than offsetting higher interest charges and operating costs. Cash flow remained unchanged at $1.3 billion in the first six months of 1989 compared with the corresponding 1988 period (Appendix B6).

Foreign-controlled companies upstream profits fell 12% ($30 million) to $210 million due to higher operating costs and increased non-cash charges (up $240 million). Cash flow, unaffected by non-cash items, increased by 12% to $2 billion in the first half of 1989 over 1988 (Appendix B7).

Table 5.
Upstream Financial Performance in billions of dollars
First six months

	1988	1989	Change	%
Total Revenues	**8.4**	**8.6**	**0.2**	**2**
less:				
Operating Costs	2.9	3.0	0.1	4
Interest	0.8	0.6	– 0.2	– 16
Royalties, Taxes	1.4	1.4	–	–
Other Expenses	2.5	2.6	0.1	7
Income Before Taxes	**0.9**	**0.9**	**–**	**–**
Current Taxes	0.2	0.2	–	– 14
Deferred Taxes	0.2	0.2	–	– 16
Net Income before Unusual Items	0.5	0.5	–	14
Unusual Gains	–	–	–	–
Net Income	**0.5**	**0.5**	**–**	**12**

Downstream Segment

Oil Products Operations

Revenues from refining and marketing of oil products increased 3% to $11.2 billion in the first six months of 1989 mainly as a result of a 6% increase in sales volumes. In addition, higher revenues resulted from the flow through to consumers of higher federal sales and excise taxes of 8%.

Net income rose 29% ($95 million) to $420 million in the first half of 1989 over the same 1988 period. Higher revenues and reduced cost of goods sold more than offset the impact of increased expenses in all other categories to produce higher profits.

Cash flow for oil products operations increased 26% or $160 million to $790 million in the first six months of 1989 over 1988 (Appendix B9).

Gross profit margins, defined here as the difference between average sales revenue, direct taxes and cost of goods sold, increased to 6.7¢ per litre in the first half of 1989 from 6.1¢ per litre in 1988. The improvement was the result of greater demand for oil products and lower feedstock costs (Appendix A22).

Average crude oil refiner acquisition costs by region and related transportation costs are shown in Appendices A6 and A7.

Table 6.
Oil Products: Financial Performance and Profit Margins
First six months

	1988		1989		Change
	$ millions	¢/litre	$ millions	¢/litre	¢/litre
Gross Sales	10928	27.26	11244	26.54	– 0.72
Other Revenue	301	0.75	341	0.81	0.06
Total Revenue	**11228**	**28.01**	**11586**	**27.35**	**– 0.66**
less:					
Federal Sales and Excise Taxes	1968	4.91	2120	5.00	0.10
Cost of Goods Sold	6800	16.96	6623	15.64	– 1.33
Gross Profit Margins	**2460**	**6.14**	**2843**	**6.71**	**0.57**
less:					
Distribution, Selling and Administration Expenses	1602	4.00	1759	4.15	0.16
Cash Income before Interest and Current Taxes	**858**	**2.14**	**1084**	**2.56**	**0.42**
Interest Expenses	37	0.09	65	0.15	0.06
Current Income Taxes	191	0.48	227	0.54	0.06
Cash Income after Current Taxes	**630**	**1.57**	**791**	**1.87**	**0.30**
Depreciation and Other Non-Cash Charges	281	0.70	302	0.71	0.01
Deferred Income Taxes	51	0.13	71	0.17	0.04
Extraordinary Gains	26	0.06	1	0.00	– 0.06
Net Income after Extraordinary Items	**324**	**0.81**	**419**	**0.99**	**0.18**

Other Downstream Operations
Net income from other downstream operations, mainly petrochemicals, remained unchanged at $265 million in the first six months of 1989 over the corresponding 1988 period. An increase in revenues was offset by higher operating costs, interest expenses and non–cash charges (including deferred taxes). Internal cash flow increased 7% to $395 million (Appendix B9).

Total Downstream
The combined revenue of petroleum products and petrochemical operations increased 3% to $13.5 billion. Combined net income rose 16% to $685 million in the first half of 1989 from $590 million in 1988 and cash flow increased 18% ($185 million) to $1.2 billion.

Other Canadian Operations

This business segment, which includes corporate income and expenses, recorded a net loss of $170 million in the first six months of 1989 compared with a profit of $70 million in the corresponding 1988 period. In the first half of 1989, sizeable intersegment eliminations occurred in current income taxes and were reported as negative current taxes. This in itself would have increased the reported amount of net income. However, lower revenues and a marked increase of $205 million in interest charges (reported as a corporate item) resulted in the net loss in 1989. Cash flow, similarly affected, was a negative $145 million in the first six months of 1989 vs. a positive $155 million in the corresponding period in 1988.

As noted in previous Monitoring Reports, many companies treat financing activities, and thus interest expense, as a corporate function – by definition included in 'other Canadian operations'. Although a large number of companies allocate interest charges to other segments, 39% of the industry's total interest expenses remain charged to this segment which accounts for only 6% of total industry revenues.

Foreign Operations

Net income on foreign operations declined 3% to $85 million in the first half of 1989 vs. 1988. A 14% increase in revenues was more than offset by a 38% rise in non-cash items. Foreign activities of Canadian petroleum companies tend to be oil and gas production operations. Accordingly, the rise in revenues reflected the same factors that applied generally to Canadian upstream operations. Cash flow, unaffected by non-cash items, rose 32% to $325 million (Appendix B1).

Table 7.
Downstream Financial Performance by Subsegment in millions of dollars
First six months

	Net Income			Cash Flow		
	1988	1989	Change %	1988	1989	Change %
Oil Products	324	419	29	630	791	26
Petrochemicals	264	264	–	372	397	7
Total Downstream	588	683	16	1003	1188	18

2

Sources and Uses of Funds[1]

Overview

Funds available to the petroleum industry prior to 'discretionary uses' increased $6.1 billion or 166% to $9.7 billion in the first six months of 1989 as a result of a rise of $5.9 billion in net external sources, plus an increase in internal cash flow of $180 million. Net external sources provided $5.1 billion in 1989 vs. an outflow of $815 million in the first half of 1988.

New long-term debt exceeded redemptions by $3.6 billion compared with $865 million of net redemptions in the first half of 1988. New equity, net of repurchases, was $1.4 billion in the first six months of 1989 vs. $50 million in the first half of 1988. The increase in both new long–term debt and equity can be largely viewed as funds raised for the purpose of takeover activity in the petroleum industry.

During the first half of 1989, net capital outlays were 18% lower at $3.4 billion. Dividend payments rose 16% from $685 million to $795 million. The excess of 'All Other Uses' over 'All Other Sources' in the first half of 1989 resulted from the purchase of assets and takeover activity.

The net draw-down of working capital of $1.2 billion in the first half of 1988 contrasted with the smaller draw–down of $85 million in 1989. The 1988 draw-down of working capital was in part due to short-term borrowing by a large Canadian–controlled company to finance the redemption of preferred shares. In addition, long-term debt becoming due for a number of companies entering receivership led to an increase in short-term liabilities, and hence a reduction in working capital (Appendix B10).

(1) Sources and uses of funds for an individual company are reported to the PMA on a net basis. For example, a company raising and repaying debt would report only the net amount. Similarly, companies report only the net amount with regard to changes in equity and in working capital. For the industry as a whole, the PMA continues this process of netting the aggregates to show the industry's net draw of funds from, or net contribution of funds to, other sectors of the economy. However, to allow the reader to distinguish at the aggregate level between new long-term debt and repayment of debt, etc., these aggregates are shown separately in Table 9.

Table 8.
Sources and Uses of Funds (Net) in billions of dollars
First six months

	1988	1989	Change	Change %
Internal Sources				
Net Income before Unusual Items	1.2	1.1	– 0.1	– 4
Non-cash Items	3.3	3.5	0.2	7
Internal Cash Flow	**4.5**	**4.6**	**0.1**	**4**
Net External Sources				
New Long-term Debt, Net of Repayments	– 0.9	3.6	4.5	–
New Equity, Net of Repurchases	0.1	1.4	1.3	–
Net External Sources	**– 0.8**	**5.1**	**5.9**	**–**
Net Sources	**3.6**	**9.7**	**6.1**	**166**
Discretionary Uses				
Net Capital Expenditures	4.2	3.4	– 0.8	– 18
Dividend Payments	0.7	0.8	0.1	16
All Other Uses, Net of Other Sources	–	5.6	5.6	–
Net Uses	**4.9**	**9.8**	**4.9**	**100**
Net Working Capital Change	**– 1.2**	**– 0.1**	**1.1**	**–**

Sources and Uses of Funds (Gross)

During the first six months of 1989, external funds came from a variety of sources, but were not as large in value as related uses. New long-term debt was $4.6 billion, up $3.7 billion, and repayment of debt declined 48% or $865 million to $935 million. New share issues rose $865 million to $2 billion, while equity reductions declined to $560 million in the first half of 1989. The increase in new long–term debt and equity was largely due to takeover activity.

Reported individual increases of working capital totalled $1.7 billion in the first six months of 1989, up $455 million from $1.3 billion in the first half of 1988. Individually reported decreases in working capital amounted to $1.8 billion in the first six months of 1989 compared to $2.5 billion in the comparable 1988 period.

Funds reported as 'all other sources' represent, in part, proceeds from the sale of oil and gas properties. The decline in 'all other sources' in the first half of 1989 to $1.5 billion compared with $2.3 billion in 1988, reflects mainly the reduction in asset sales. 'All other uses' of funds rose from $2.4 billion in the first six months of 1988 to $7.1 billion in 1989 largely as a result of increased funds used for takeover activity reflecting the purchase of the entire corporate entities rather than parcels of assets. However, funds used for the purchase of assets decreased to $435 million from $935 million in the first half of 1988.

Net capital expenditures decreased 16% ($670 million) to $3.5 billion in the first half of 1989 over the corresponding period in 1988 (for further detail see Table 13).

Table 9.
Selected Categories of Sources and Uses of Funds in billions of dollars[a]
First six months

	1988	1989	Change	
				%
New Long-term Debt[b]	0.9	4.6	3.7	387
Repayment of Long-term Debt[d]	1.8	0.9	– 0.9	– 48
Long-term Debt, Net of Repayments	**– 0.9**	**3.6**	**4.5**	**–**
New Equity[b]	1.1	2.0	0.9	76
Repurchase of Equity[d]	1.1	0.6	– 0.5	– 48
Net Equity, Net of Repurchases	**0.1**	**1.4**	**1.3**	**–**
Working Capital Increase[d]	1.3	1.7	0.4	36
Working Capital Decrease[b]	2.5	1.8	– 0.7	– 28
Net Working Capital Change	**– 1.2**	**– 0.1**	**1.1**	**–**
All Other Sources[c]	2.3	1.5	– 0.8	– 35
All Other Uses[e]	2.4	7.1	4.7	201
Other Uses Net of Other Sources	**–**	**5.6**	**5.6**	**–**
Total Capital Outlays	4.4	3.5	– 0.9	– 20
CEDIP, PIP and Other Incentives	0.2	0.1	– 0.1	– 45
Net Capital Expenditures	**4.2**	**3.4**	**– 0.8**	**– 18**

Notes:
(a) Appendix B10 shows more detail.
(b) Represents amounts of new long-term debt, new equity, or funds from drawing down working capital by those companies that reported deriving net funds from these sources.
(c) Includes unusual gains; unusual losses are included in 'All Other Uses'.
(d) Represents the net application of funds to repay long-term debt, repurchase equity, or to build up working capital by those companies that reported using funds for these purposes.
(e) Mainly funds for acquisitions of plant and property from other corporations and for corporate takeovers.

Internal Cash Flow

Petroleum industry internal cash flow increased $180 million (4%) to $4.6 billion in the first six months of 1989 due primarily to higher crude oil prices and natural gas sales volumes, lower royalties, cost of goods sold and current income taxes. This more than offset the impact of higher sales and excise taxes, and increased interest and operating costs (including general and administrative expenses). The upstream segment recorded an increase of 7% ($220 million) to $3.3 billion. Cash flow from downstream operations rose 18% ($185 million) to $1.2 billion, due to higher profit margins in both the oil products and petrochemical segments. Cash flow of 'other Canadian operations' declined from $155 million in the first half of 1988 to a negative $145 million in the same 1989 period largely as a result of lower revenues and the allocation of interest charges associated with takeover activity to this business segment. Internal cash flow from foreign activities rose 32% to $325 million in the first half of 1989 due to higher crude oil prices.

Canadian-controlled companies' internal cash flow increased 3% to $1.9 billion largely as a result of a strong downstream and foreign operations performance which more than offset the poorer performance of other Canadian operations. Upstream cash flow remained unchanged.

Foreign-controlled firms' cash flow was up 5% to $2.7 billion, with higher cash flow from all operations with the exception of 'other Canadian operations'.

Table 10.
Internal Cash Flow by Sector and Segment in billions of dollars[a]
First six months

	1988	1989	Change	Change %
Canadian-Controlled Companies				
Upstream	1.3	1.3	–	–
Downstream	0.3	0.5	0.2	32
Other[b]	0.2	0.1	-0.1	-29
Total Canadian-Controlled	**1.9**	**1.9**	**–**	**3**
Foreign-Controlled Companies				
Upstream	1.7	2.0	0.3	12
Downstream	0.7	0.7	–	11
Other[b]	0.1	-0.1	-0.2	–
Total Foreign-Controlled	**2.6**	**2.7**	**0.1**	**5**
Total Industry				
Upstream	3.1	3.3	0.2	7
Downstream	1.0	1.2	0.2	18
Other[b]	0.4	0.2	-0.2	-55
Grand Total	**4.5**	**4.8**	**0.1**	**4**

Notes:
(a) See Appendix B1, B6 and B7 for more detail.
(b) Comprises internal cash flow generated by foreign activities and other Canadian operations.

Incentive Grants and Tax Credits

On March 25, 1987, the Government of Canada announced the establishment of the Canadian Exploration and Development Incentive Program (CEDIP) to provide direct assistance to the industry in respect of capital expenditures in the upstream segment. The level at which grants were earned was reduced in October 1988 to 25% from 33 1/3% of eligible capital expenditures.

On October 1, 1988, the Canadian Exploration Incentive Program (CEIP) was in place. The program provides for grants of 30% of eligible exploration expenses when incurred under a flow-though share agreement. The corporation has the choice of retaining the CEIP payments or flowing them through to investors.

Some Petroleum Incentives Program (PIP) grants continued to be available in 1987 and 1988 as commitments made under agreements existing at the time of the March 31, 1986 termination were exempted.

Total grants declined from $159 million in the first six months of 1988 (partly PIP grants) to $104 million (mainly CEDIP and CEIP grants) during 1989. Canadian-controlled companies received 59% of the grants in 1989, compared with 52% of the total in the first six months of 1988.

Table 11.
Incentive Grants by Area and Sector in millions of dollars
First six months

	Canadian-Controlled		Foreign-Controlled		Total	
	1988	1989	1988	1989	1988	1989
Provinces	79	61	74	43	152	103
Canada Lands	4	–	3	–	7	–
Total Canada	83	61	76	43	159	104

Note:
Appendix A17 provides additional detail.

Exploration expenses for wells costing more than $5 million attract the Exploration Tax Credit (ETC) at a rate of 25% of eligible expenses. These credits together with the Investment Tax Credit (ITC) declined to $13 million in the first six months of 1989 from $52 million in 1988. Decreases stemmed from lower credits for both the provinces and the Canada Lands. The amount of ITC earned has been reduced over the past year and will be phased out completely except if an expenditure occurs in a designated area or for certain scientific research and development activity.

Table 12.
Exploration and Investment Tax Credits in millions of dollars
First six months

	Canadian-Controlled		Foreign-Controlled		Total	
	1988	1989	1988	1989	1988	1989
Provinces	17	1	12	–	29	1
Canada Lands	14	7	8	5	22	12
Total Canada	31	8	21	5	52	13

Capital Expenditures

Gross capital expenditures in the first half of 1989 decreased $880 million or 20% to $3.5 billion, with domestic expenditures declining 21% and outlays abroad rising 1%. Expenditures abroad as a share of total capital spending were up slightly to 7% from 6% in the first six months of 1988. Upstream expenditures remained the largest component of total capital outlays, accounting for 75% in the first six months of 1989 vs. 79% in 1988. All components of the upstream sector recorded decreases with the exception of production expenditures. Downstream expenditures declined 18% while the small component of non-specified expenditures rose 27%.

Table 13.
Capital Expenditures in billions of dollars[a]
First six months

	1988	1989	Change	%	Share of Total 1988 %	Share of Total 1989 %
Upstream						
Exploration	1.7	1.3	-0.4	-21	37	37
Development	0.6	0.4	-0.2	-39	14	11
Production	0.8	0.8	-	5	17	23
Non-conventional[b]	0.4	0.2	-0.2	-63	10	5
Total Upstream[c]	**3.5**	**2.7**	**-0.8**	**-24**	**79**	**75**
Downstream	0.5	0.4	-0.1	-18	12	12
Energy Mining	-	-	-	21	0	1
All Other	0.1	0.2	0.1	27	3	5
Total Expenditures in Canada	**4.2**	**3.3**	**-0.9**	**-21**	**94**	**93**
Expenditures Abroad	**0.2**	**0.2**	**-**	**1**	**6**	**7**
Total Expenditures	**4.4**	**3.5**	**-0.9**	**-20**	**100**	**100**
Incentive grants and other receipts	0.2	0.1	-0.1	-46		
Net Capital Expenditures	**4.2**	**3.4**	**-0.8**	**-19**		
Memo Items:						
Upstream Capital Expenditures (Net of incentive grants and other receipts)	3.3	2.5	-0.8	-22		

Notes:
(a) More detail is presented in Appendix B11 and B12.
(b) Includes oil sands and non-conventional heavy oil products.
(c) Includes CEDIP and CEIP incentives, and other receipts.

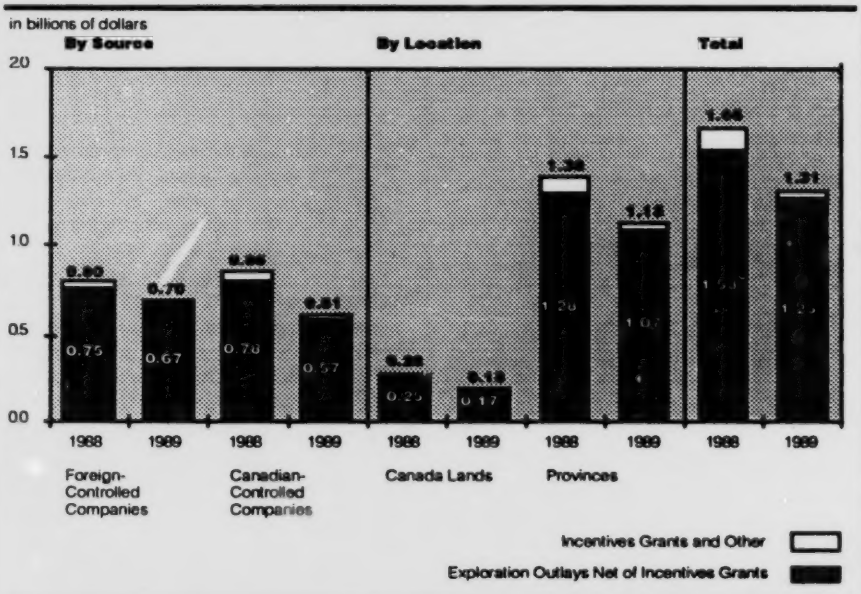
Upstream: Uncertainty over future oil prices following the reduction of crude oil prices in 1988 to the lowest average level in ten years produced a dampening effect on capital outlays in 1989. Companies reduced expenditures in the first half of 1989 by $830 million or 24% to $2.7 billion over the corresponding 1988 period. Expenditures declined in all categories, with the exception of production spending. The rise in production expenditures resulted from increased construction of natural gas processing plants to take advantage of a growing natural gas market.

Net of incentive grants, upstream outlays by Canadian-controlled companies decreased 23%, while those of foreign-controlled companies declined 22%. As a result, the Canadian-controlled group of companies' share of upstream capital spending decreased 0.2 percentage points to 43.7% of the total in the first half of 1989 (Appendix B11).

Exploration expenditures fell 18% to $1.1 billion in the provinces, and decreased 35% to $185 million on Canada Lands. This produced a decline of 21% in total exploration spending to $1.3 billion. Expenditures on Canada Lands accounted for 14% of the total vs. 17% in the first half of 1988, with all areas of Canada Lands experiencing reduced activity.

Exploration outlays by foreign-controlled companies were 13% lower in the first half of 1989, while those for Canadian-controlled firms were down by 29%. Canadian-controlled companies accounted for 47% of total exploration spending, down 5 percentage points from the first six months of 1988.

Chart 4.
Exploration Expenditures in Canada
First six months



Downstream Expenditures: Downstream outlays declined 18% to $430 million in the first six months of 1989 due to the completion of a heavy oil upgrader in 1988. Thus reductions in expenditures for refineries more than offset increased spending on petrochemical plants and marketing outlets.

Energy Mining and All Other: Expenditures were lower in energy mining, but higher in all other areas including those for mining facilities, drilling ships, caissons, and drilling rigs. This category of capital outlays also includes capitalized interest charges related to pre-start-up project expenditures.

Reinvestment Rates

The overall reinvestment rate for the petroleum industry – i.e. total net capital expenditures[1] as a percentage of internal cash flow from all business segments was 73% in the first six months of 1989, down from 94% in the corresponding 1988 period (Appendix A15).

The precipitous decline in crude oil prices in 1986, followed by a partial recovery in 1987 and then by another decline in 1988 to the lowest average price levels in nearly a decade created a great deal of uncertainty about the future direction of crude oil prices. In addition, reductions in federal and provincial incentives programs resulted in a more cautious industry with regard to new capital outlays. Accordingly, gross upstream expenditures declined 24%. Mostly affected were capital outlays in high cost areas such as oil sands (down 63%) and on Canada Lands (down 31%). Overall capital expenditures were 18% lower in the first half of 1989 vs. 1988.

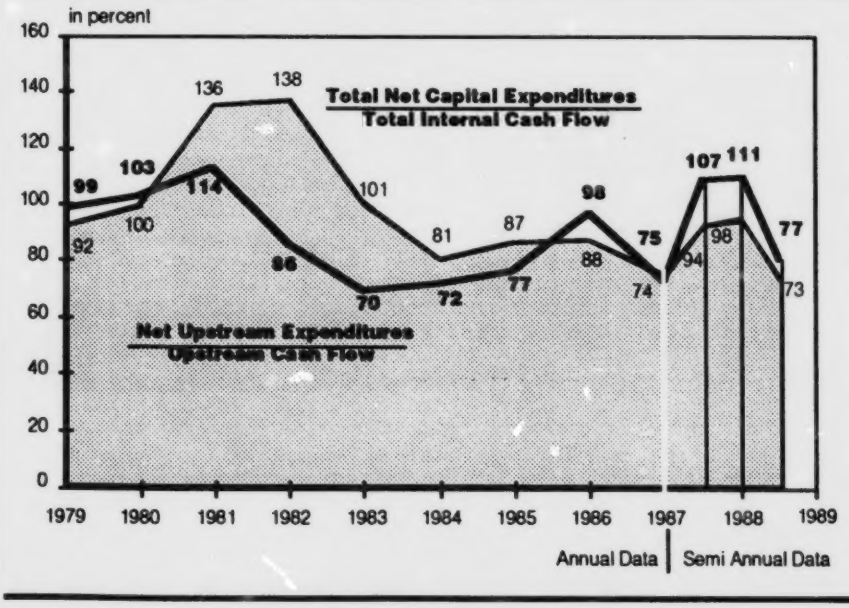
The increase in crude oil prices more than offset the impact of lower volumes while increased production of marketable natural gas overcame reduced prices resulting in an improvement in internal cash flow. The higher cash flow together with the reduced capital expenditures caused a decrease of 21 percentage points in the reinvestment rate to 73% in the first half of 1989.

Both Canadian- and foreign-controlled groups reported major overall decreases in their reinvestment rates. Canadian-controlled companies' total reinvestment rate declined from 105% in the first half of 1988 to 80% in 1989, while that for foreign-controlled companies dropped from 86% to 69%. A comparison of the two groups in terms of upstream activities gives similar results, with Canadian-controlled companies reinvesting 84% of upstream cash flow (down 25 percentage points) vs. 73% for foreign-controlled firms (down 32 percentage points).

Upstream capital expenditures (net of incentive grants) accounted for 77% of industry upstream cash flow, down 30 percentage points from the first six months of 1988. Upstream cash flow increased 7%, while net upstream capital expenditures fell 22%.

(1) Net capital expenditures is defined as capital expenditures less incentive grants and insurance receipts.

Chart 5.
Reinvestment Rates



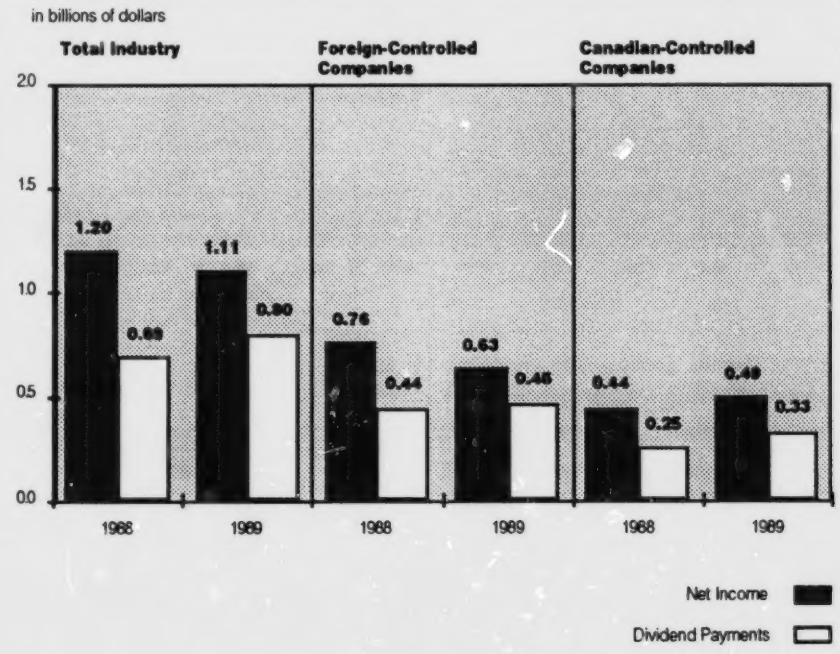
Dividend Payments

Dividend payments by the petroleum industry rose 16% to $795 million in the first six months of 1989, while net income declined 7% from $1.2 billion in the first half of 1988 to $1.1 billion. As a result, the industry payout rate rose from 57% in the first six months of 1988 to 72% in 1989.

Dividends paid by Canadian-controlled companies increased 35% to $335 million for a payout rate of 68% in the first half of 1989, while dividend payments by foreign-controlled companies rose 5% to $465 million, a payout of 74%.

The increase in dividends resulted from a declaration of dividends by a foreign-controlled company prior to being purchased by another firm. Part of the dividend was paid in the form of 'specie' as a means of spinning–off a part of a company prior to the remainder of the company being sold. Thus, the company that was spun–off remained with the original shareholders. In addition, a Canadian-controlled company without a history of paying dividends had a large payout on preferred shares (Appendices A20 and B1).

Chart 6.
Dividend Payments Compared with Net Income
First six months



3

Comparative Performance: Petroleum and Other Industries

Net Income Comparison

The petroleum sector's financial performance can be put into perspective by comparing it to other sectors of the economy using data from Statistics Canada.(1) The purpose is to indicate the relative and changing importance of the petroleum industry in the total net income picture of all non-financial industries.(2)

Exclusive of Crown corporations, the petroleum industry's net income from Canadian operations after extraordinary items decreased 31% to $1 billion in the first six months of 1989, compared with a 3% increase to $11.9 billion for all other non-financial industries. Chart 7 shows that the petroleum industry's net income for the first six months of 1989 represented 8% of all non-financial industries' net income. Although this compares favourably against the particularly poor results in 1986, it is still well below the level of all other prior periods. By comparison, the net income of $11.9 billion for all other non-financial industries represents a record high for a first half period.

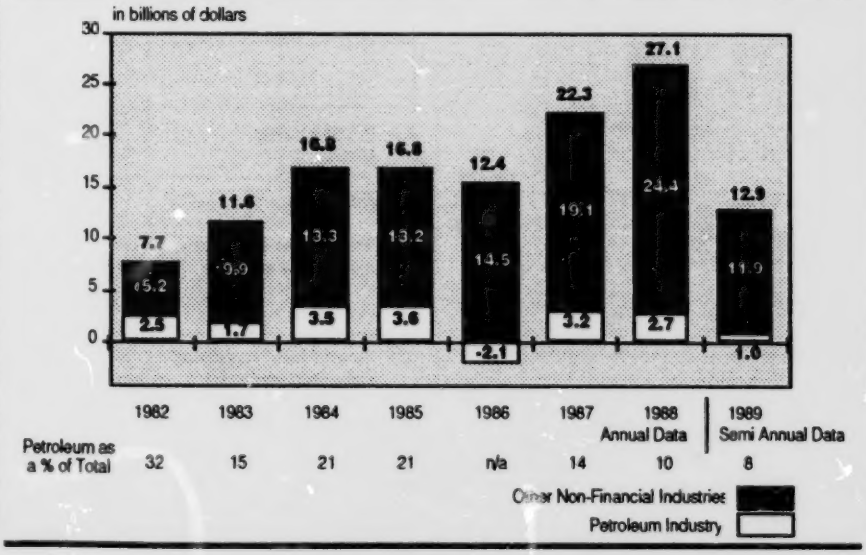
Table 14.
Comparison of Net Income – Petroleum Industry vs. All Other Non-Financial Industries in billions of dollars
First six months

	1988	1989	Change	%
Total Non-Financial excluding Petroleum	11.5	11.9	0.4	3
Petroleum	1.5	1.0	– 0.5	– 31
Total Non-Financial including Petroleum	13.0	12.9	– 0.1	– 1

(1) The data given in this section of the report are not precisely comparable with those presented elsewhere although they are close to results based on the PMA survey which are reported in Chapters 1 and 2. Petroleum industry data from Statistics Canada, while covering a greater number of companies than the PMA survey, exclude government business enterprises as well as the foreign activities of companies originating in Canada. The PMA survey covers the global activities of petroleum companies operating in Canada, including Crown corporations, subject to a minimum size in terms of assets and revenues.

(2) Included here are manufacturing, mining, services, utilities, etc.

Chart 7.
Comparison of Net Income – Petroleum Industry vs. All Other Non-Financial Industries



Capital Expenditures

Based on Statistics Canada data, petroleum industry gross capital expenditures (i.e. before deducting incentive grants) decreased 23%[1] in the first half of 1989 over 1988 primarily due to the effect of the drop in crude oil prices experienced in 1988 and the resulting uncertainty that was created with respect to future price levels.

Capital expenditures of non-financial industries excluding petroleum increased 5%, largely the result of the increase in spending by manufacturing and mining concerns more than offsetting a decline in the category 'other non–financial' which was down 10% in the first six months of 1989. The capital expenditures of the petroleum industry as a proportion of total capital expenditures of all non-financial industries decreased by 5 percentage points to 16% in the first six months of 1989.

(1) These data differ significantly from that published in Chapter 2 due to the fact that Statistics Canada data include here some acquisitions in the category of capital expenditures.

Table 15.
Comparison of Capital Expenditures – Petroleum Industry vs. All Other Non-Financial Industries in billions of dollars
First six months

		1988	1989	Change	%
1.	Manufacturing	4.9	6.6	1.7	35
2.	Mining	1.2	1.3	0.1	10
3.	**Other Non-Financial**	**9.9**	**8.8**	**– 1.1**	**– 10**
4.	**Total Non-Financial** excluding Petroleum	**16.0**	**16.8**	**0.8**	**5**
5.	Petroleum	4.3	3.3	– 1.0	– 23
6.	**Total Non-Financial** including Petroleum	**20.3**	**20.1**	**– 0.2**	**– 1**
7.	Line 5 as a % of line 6	21	16		

Source:
Statistics Canada, 61-003, *Industrial Corporations – Financial Statistics*. This survey does not include government enterprises. Expenditures are gross outlays, including capital grants.

4

International Flows of Funds: 1988 vs. 1987

In this chapter and the next two (Capital Structure and Income Tax-Related Data) statistics for the full year 1988 are compared with the full year 1987. These data were not available when the report for the year 1988 was issued.

The international flow of funds[1] related to long-term capital movements to and from the Canadian petroleum industry resulted in a *net outflow of $1.9 billion* in 1988. The outflows from all types of current account transactions more than compensated for an inflow of $195 million from capital account transactions (Appendix A23). The capital account inflow was the result of increased debt raised abroad by both Canadian– and foreign–controlled companies which more than offset outflows as a result of direct investment abroad.

Interest and dividend outflows (net of inflows) of $700 million and $1.2 billion respectively, coupled with net external business service payments of $195 million, resulted in an overall net current account outflow of $2.1 billion.

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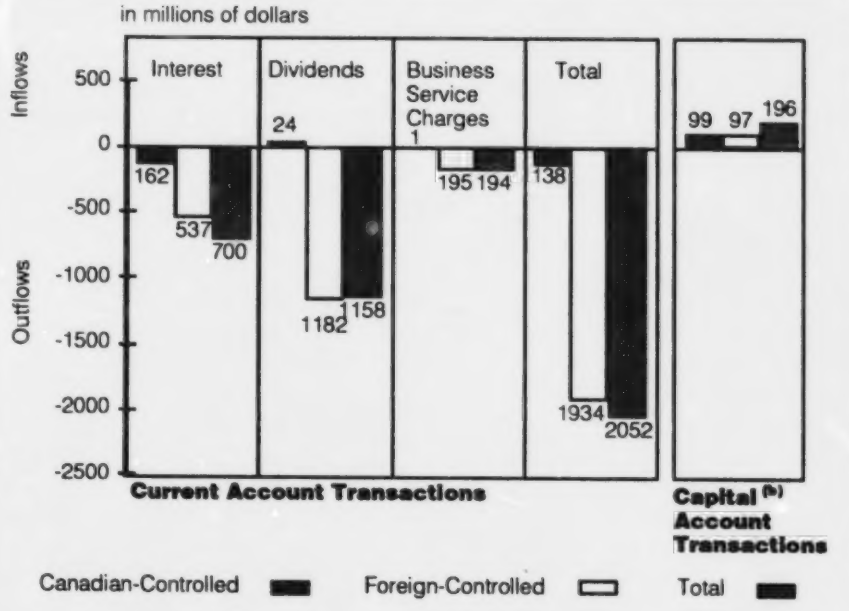
(1) Data on international flows of funds are obtained from Statistics Canada. International flows of funds to or from non-energy parent companies caused by the transactions of their energy subsidiaries are not included.

Chart 8.

International Flows of Funds Related to Long-Term Investments[a] - 1988



Notes:

(a) All figures are net amounts and exclude exports and imports of goods, and transportation services. Appendix A23 shows additional detail including short-term capital flows – these latter flows amounted to $1.1 billion (net inflows) in 1988.

(b) Capital account represents funds related to long-term investments, such as a parent company's investment in a foreign subsidiary or the repatriation of a controlling interest from a non-resident owner.

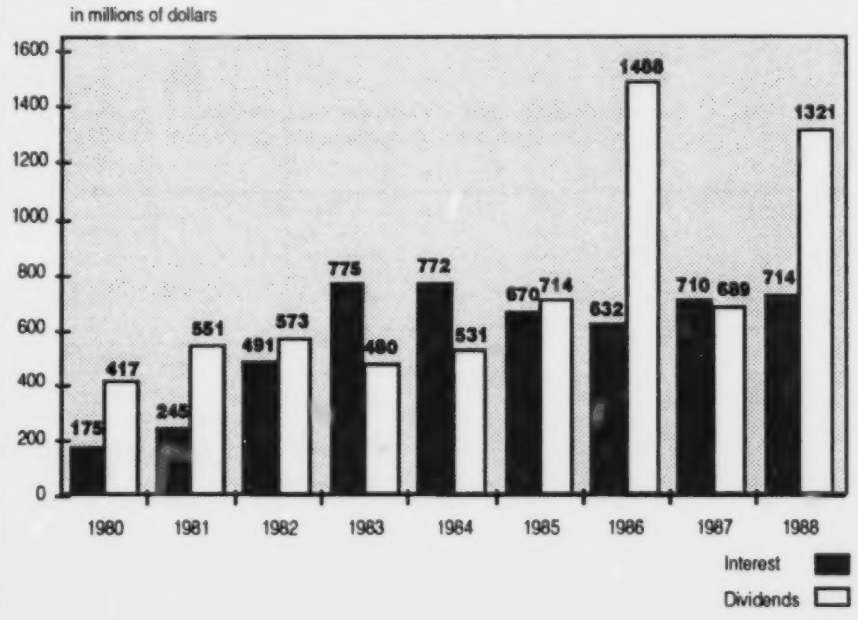
The *Canadian-controlled sector* reported a net capital inflow of $100 million in 1988, as a result of debt raised from foreign sources, a capital account transaction. Interest and dividend payment outflows from this sector of the industry amounted to $160 million and $10 million respectively, offset partly by foreign dividend receipts of $35 million. Business service charge payments were negligible in 1988.

The *foreign-controlled sector* of the industry recorded a net outflow of $95 million on capital account transactions. Inflows of capital by borrowing abroad more than offset outflows to foreign–based subsidiaries. At the same time within the current account, the foreign-controlled sector's interest, dividend, and business service payment outflows to non-residents were $550 million, $1.3 billion, and $245 million respectively, with inflows amounting to $15 million, $130 million, and $50 million in each case. The large increase in interest payments was due to takeover activity within Canada which saw debt transferred from a Canadian–controlled company to its new foreign–controlled owner.

Gross interest and dividend payment outflows by the petroleum industry of $2 billion in 1988 were significantly higher than in 1987. The increase in dividends in 1988 resulted from a declaration of a large dividend by a foreign–controlled company prior to being purchased by another firm. In addition, another company declared relatively large dividend payments after the sale of equity investments in Canada.

The rise in interest payments to non–residents was due to higher overall interest rates in 1988 than in 1987.

Chart 9.
Interest and Dividend Payments to Non-Residents[a]



Note:
(a) Appendix A23 shows dividend and interest payments and additional details for 1988.

From 1981 through 1985, direct outflows of capital from the Canadian petroleum sector could be attributed to the cost of takeovers of foreign-controlled oil and gas companies. This increased the overall Canadian ownership rate in the industry.

In 1988, the Canadian-owned proportion of the petroleum industry's upstream plus downstream revenues increased one–half of one percentage point, due to the elimination of a minority position held by a foreign–controlled company in a large Canadian–controlled company which had significant downstream revenues. However, the direct capital outflow of $495 million relates to an increase in direct investment abroad by both foreign– and Canadian–controlled companies and not to the increase in Canadian ownership of upstream plus downstream revenues.

Chart 10.
Direct Capital Flows vs. Changes in Canadian Ownership

5

Capital Structure: 1988 vs. 1987

Total capital employed in the Canadian petroleum industry was $62.9 billion in 1988, up $1.1 billion (or 2%) from the $61.8 billion capital employed in 1987. Long-term debt represented approximately 33% of industry capitalization in 1988 and equity represented 67% for a 4 percentage point increase in favour of the equity component compared to the previous year.

Canadian-controlled companies accounted for almost 45% of the total capital employed in 1988, down from 58% in 1987, largely as a result of the takeovers of Dome Petroleum by Amoco Canada, Canterra Energy by Husky Oil and the partial purchase of Bow Valley Industries by British Gas. Consequently, the Canadian-controlled sector's relatively high level of debt of 68% of total industry long-term debt in 1987 was reduced to 39% of the total in 1988. In addition, the share of common equity of the Canadian-controlled companies increased slightly to 45% of total industry common equity.

Table 16.
Capital Structure by Sector: 1988 vs. 1987 in billions of dollars

	1987	1988	Change	%	Share of Total 1987 %	Share of Total 1988 %
Canadian-Controlled Companies						
Equity – Preferred	5.7	4.0	– 1.7	– 30	16	14
– Common[a]	14.5	16.5	2.0	14	40	58
Total Equity	20.2	20.5	0.3	1	56	72
Long-term Debt	15.7	8.1	– 7.6	– 48	44	28
Capital Employed[b]	**35.9**	**28.6**	**– 7.3**	**– 20**	**100**	**100**
Foreign-Controlled Companies						
Equity – Preferred	0.5	1.2	0.7	140	2	4
– Common[a]	18.1	20.3	2.2	12	70	59
Total Equity	18.6	21.5	2.9	16	72	63
Long-term Debt	7.3	12.9	5.6	77	28	37
Capital Employed[b]	**25.9**	**34.4**	**8.5**	**33**	**100**	**100**
Total Industry						
Equity – Preferred	6.2	5.2	– 1.0	– 16	10	8
– Common[a]	32.6	36.8	4.2	13	53	59
Total Equity	38.8	42.0	3.2	8	63	67
Long-term Debt	23.0	20.9	– 2.1	– 9	37	33
Total Capital Employed[b]	**61.8**	**62.9**	**1.1**	**2**	**100**	**100**

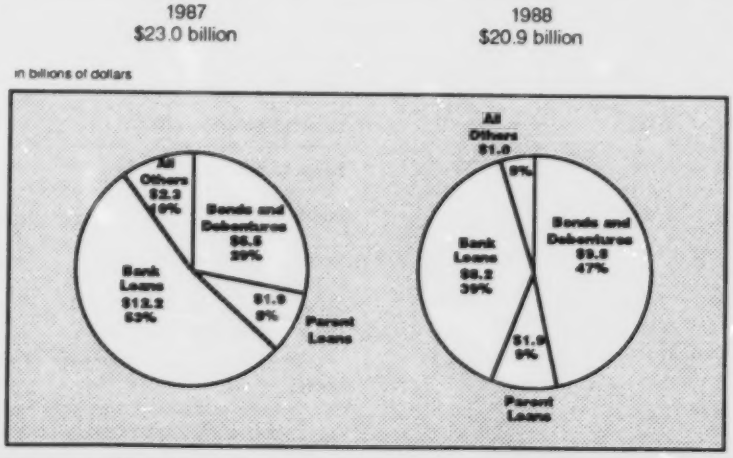
Notes:
(a) Includes common shares, contributed surplus and retained earnings.
(b) Excludes minority interest as detailed in Appendix A24.

Long-Term Debt

In 1988, the long-term debt of the Canadian petroleum industry decreased $2.1 billion, or 9%, to $20.9 billion. As a result of takeover activity, bank debt was renegotiated and exchanged in favour of increased debt in the form of bonds and debentures but in many cases still held by banks. Bank loans declined from $12.2 billion (or 53% of total long–term debt) in 1987 to $8.2 billion (or 39%) of the total in 1988, while bonds and debentures increased from 29% to 47% of total debt in 1988 (Appendix A24). Approximately 51% of long–term debt was raised at floating interest rates, based on Canadian or U.S. prime or LIBOR (Appendix A24).

Foreign-controlled companies, as a result of takeover activity, reported a 77% increase in long–term debt to $12.9 billion, primarily by increasing bond and debenture obligations. Canadian–controlled companies reduced long–term debt by 49% to $8.1 billion as heavily indebted companies were purchased by foreign–controlled companies. In addition, producing assets were sold by other companies, both foreign– and Canadian–controlled, in an effort to reduce debt.

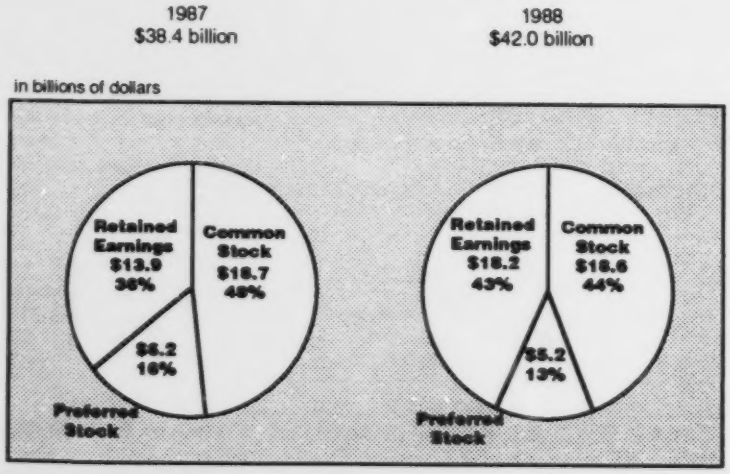
Chart 11.
Industry Long-Term Debt Structure



Equity

Shareholders' equity in the Canadian petroleum industry rose 8% to $42 billion in 1988, up $3.2 billion from 1987. The increase in equity occurred in the value of common stock rising $1 billion to $16.7 billion in 1988 as a result of new issues placed by foreign-controlled companies to pay for takeover activity. Retained earnings rose $4.3 billion to $18.3 billion in 1988 due, in part, to takeover activity that saw a large company with a considerable amount of negative retained earnings in 1987 eliminated in 1988. However, preferred shares were reduced 17% to $5.2 billion through redemption by Canadian-controlled companies. As a consequence of these changes, the relative mix of equity forms shifted towards retained earnings by 8 percentage points in 1988, with a corresponding reduction of 4 percentage points in both the preferred stock and the common stock component of the industry's overall capital structure (Appendix A24).

Chart 12.
Industry Equity Structure



6

Income Tax-Related Data: 1988 vs. 1987

Taxable Income and Income Taxes Payable

Taxable income reported by the petroleum industry dropped 39% to $2.6 billion in 1988, from $4.2 billion in 1987. This sharp decline was mainly due to a weak upstream segment affected by the lowest average crude oil and natural gas prices in about ten years. Consequently, income taxes payable to federal and provincial governments declined 39% to $830 million compared with $1.4 billion in 1987.

Federal income taxes payable declined 38%, or $450 million, to $730 million. Contributing to this lower level of federal taxes was the impact of changes in the basic federal rate, which dropped effective July 1, 1988 to 28% from 35% after the 10% provincial rebate. Provincial income taxes payable dropped to $100 million from $180 million in 1987 although the Alberta Royalty Tax Credit claimed declined from $250 million in 1987 to $210 million in 1988.

Table 17.
Taxable Income and Income Taxes Payable in billions of dollars

	1987	1988	Change	Change %
Canadian-Controlled Companies				
Taxable Income	**0.77**	**0.55**	**- 0.22**	**- 28**
Income Taxes Payable:				
Federal	0.21	0.13	- 0.08	- 37
Provincial	- 0.02	- 0.05	- 0.02	- 109
Income Taxes Payable	**0.19**	**0.09**	**- 0.10**	**- 54**
Foreign-Controlled Companies				
Taxable Income	**3.43**	**2.02**	**- 1.41**	**- 41**
Income Taxes Payable:				
Federal	0.96	0.59	- 0.37	- 38
Provincial	0.20	0.15	- 0.06	- 27
Income Taxes Payable	**1.16**	**0.74**	**- 0.42**	**- 36**
Total Industry				
Taxable Income	**4.20**	**2.58**	**- 1.62**	**- 39**
Income Taxes Payable:				
Federal	1.17	0.73	- 0.45	- 38
Provincial	0.18	0.10	- 0.08	- 44
Total Income Taxes Payable	**1.35**	**0.83**	**- 0.52**	**- 39**

Reconciliation of Book Income to Taxable Income

Book net income of petroleum companies decreased 12% ($520 million) to $3.6 billion in 1988 from $4.2 billion in 1987. In 1988, a small number of companies included unusually high receipts of inter-corporate dividends with their net income. These dividends are generally reported by companies as 'other additions' to income. As a result of the inconsistency in reporting, net income was higher in 1988 than it would have been had all companies reported consistently. Also, book net income would have matched more closely the taxable income of $2.6 billion in 1988.

Foreign-controlled companies reported book profits of $2.3 billion vs. $2.9 billion in 1987. Book deductions that are added back for tax purposes totalled $6.8 billion in 1988 compared with deductions for tax purposes of $6.3 billion. Taxable income of the foreign-controlled group fell 41%, to $2.1 billion in 1988 from $3.4 billion in the prior period.

Canadian-controlled companies reported book profits of $1.3 billion, unchanged from those reported in 1987. Non-deductible book expenses added back totalled $5 billion vs. tax deductions of $4.7 billion. Taxable income declined $220 million to $555 million in 1988.

Table 18.
Reconciliation of Book Income to Taxable Income: 1988 vs. 1987
in billions of dollars

	Total Industry		Foreign-Controlled		Canadian-Controlled	
	1987	1988	1987	1988	1987	1988
Book Net Income	**4.2**	**3.6**	**2.9**	**2.3**	**1.3**	**1.3**
plus[a]:						
Depreciation and Amortization	2.5	2.6	1.5	1.6	1.0	1.0
Depletion	1.7	1.8	0.7	0.7	0.9	1.1
Current E&D Expensed	0.6	0.6	0.6	0.6	0.0	0.0
Non-Deductible Crown Royalties	2.4	1.8	1.7	1.2	0.8	0.6
Other Additions[a]	6.4	5.0	3.8	2.8	2.7	2.2
Total Additions	**13.7**	**11.8**	**8.3**	**6.8**	**5.4**	**5.0**
Income Prior to Tax Deductions	**17.8**	**15.4**	**11.2**	**9.1**	**6.7**	**6.3**
less:						
Capital Cost Allowance	3.0	2.4	1.8	1.3	1.2	1.1
Resource Allowance	2.2	1.6	1.4	0.9	0.7	0.6
Canadian Exploration Expenses	1.2	1.4	0.8	0.8	0.4	0.6
Canadian Development Expenses	1.0	0.9	0.6	0.4	0.3	0.5
Canadian Oil & Gas Property Expenses	0.5	0.5	0.3	0.3	0.2	0.2
Earned Depletion Allowance	0.3	0.3	0.2	0.2	0.1	0.1
All Other Deductions[b]	3.7	4.1	2.2	2.4	1.6	1.7
Total Deductions	**11.8**	**11.1**	**7.2**	**6.3**	**4.6**	**4.7**
Net Income for Tax Purposes	**6.0**	**4.3**	**4.0**	**2.8**	**2.1**	**1.5**
less:						
Non-Capital Losses	0.6	0.7	0.4	0.4	0.1	0.3
Taxable Dividends	2.3	1.8	0.8	0.9	1.5	0.9
Other Deductions	0.1	0.2	0.1	0.2	0.0	0.0
plus:						
Current Year Non-Capital Losses	1.2	1.0	0.8	0.8	0.4	0.2
Taxable Income (Tax Base)	**4.2**	**2.6**	**3.4**	**2.1**	**0.8**	**0.6**
Income Tax Payable	1.4	0.8	1.2	0.7	0.2	0.1
Tax Pools Remaining	23.9	25.1	13.1	13.2	10.8	11.9
Non-Capital Losses Remaining	1.8	1.8	1.1	1.2	0.8	0.6

Notes:
(a) The additions represent charges that are not allowable for income tax purposes.
(b) A complete breakdown of these items can be found in Appendices B17-20.

Tax Pools Remaining

The petroleum industry's tax pools[1] (Appendix A25) amounted to $25.1 billion at the end of 1988, up $1.2 billion from the 1987 level. The Cumulative Canadian Oil and Gas Property Expense pools rose by $1 billion, mainly as the result of purchases of oil and gas producing assets. At the same time, due to the weak performance of the resource sector and to changes in the tax system, the industry reported an overall decline in the current year deductions. The decline in claims of Capital Cost Allowance and Canadian Development Expense, by $600 million and $80 million respectively, more than offset a $220 million increase in the Canadian Exploration Expense claim, while the other deduction remained relatively unchanged. However, there were large unused pool balances transferred to other newly created entities, mostly partnerships, with a year–end outside the period under review. Consequently, these pool balances were not included in 1988. This statistical anomaly will be eliminated in 1989, when a full year for the new entities will be consolidated within reporting companies.

Tax Expenditures[2]

The weaker performance of the resource sector resulted in lower resource profits, and therefore lower Resource Allowance claims. The Resource Allowance, which represents 25% of resources profit, declined 28% to $1.6 billion, from $2.2 billion in 1987. The Resource Allowance deduction, which is provided to compensate for the non–deductibility of Crown royalties, amounted to 86% of Crown royalties, down from 89% in 1987.

Despite tax changes, which phase out earned depletion in two stages ending in 1989, the allowance claimed remained unchanged at $260 million with many corporations still having large unused balances.

The Investment Tax Credit claimed declined by more than half to $75 million in 1988, in response to the tax changes aimed at eliminating this deduction. However, the Exploration Tax Credit rose to $40 million, from $20 million in 1987, as increased activity on Canada Lands attracted more expenditures qualifying for this credit.

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(1) Tax pools are accumulated eligible expenditures available to reduce net income for tax purposes in subsequent years.

(2) The tax system does not permit the petroleum industry to deduct certain costs and allowances in computing taxable income. But, reflecting the unique nature of exploration activities and resource development, the industry is allowed credits, some of which do not apply to other sectors of the economy. Cumulatively these are referred to as tax expenditures. The most important examples of these tax expenditures are accelerated write-offs, resource allowances, depletion allowances and investment tax credits. Other tax expenditures, but of minor importance, are detailed in Appendices B17-20. For a fuller discussion of tax expenditures see "Account of the Cost of Selective Tax Measures", August 1985, Department of Finance.

Table 19.
Selected Tax Expenditures in billions of dollars

	Total Industry		Foreign-Controlled		Canadian-Controlled	
	1987	1988	1987	1988	1987	1988
Resource Allowances	**2.15**	**1.56**	**1.41**	**0.94**	**0.74**	**0.62**
Depletion Allowances	**0.26**	**0.26**	**0.18**	**0.18**	**0.08**	**0.08**
Investment Tax Credit	**0.15**	**0.07**	**0.12**	**0.06**	**0.03**	**0.02**
Memo Item: Provincial Royalties	2.41	1.80	1.66	1.17	0.75	0.64
In Percent Resource Allowances as a % of Provincial Royalites	89	86	85	80	98	97

Appendices

Appendix A Supplementary Information

A1

Year in Review

1989

Jan 1
The Canada–United States Free Trade Agreement came into effect.

Mar 28
The fourth natural gas price monitoring report was released. It concluded that during the period from May to November 1988 Canadian consumers continued to benefit from domestic prices which were lower than export prices.

Apr 28
The Minister of Energy, Mines and Resources announced the early termination of the CEDIP incentive program.

May 30
Following a ministerial level meeting of the Governing Board of the International Energy Agency, Canada's Minister of Energy, Mines and Resources outlined this country's commitment to countering global warming by identifying the way in which energy policies can be made environmentally sustainable and by encouraging the development and commercialization of new energy efficient technologies.

Jun 20
The Department of Energy, Mines and Resources presented detailed information to a House of Commons Committee showing that 56% of the money available under CEDIP, $1.25 billion ($400 million more than forecast), went to small firms and applicants while the balance was paid to companies having more than $10 million in annual eligible expenses.

Jun 28
The International Energy Agency released its report on Canada's energy policies which stated that the Free Trade Agreement provides Canada with a secure energy future because of its increased market access and dependable investment climate.

Sep 25
The fifth biannual monitoring report of the performance of domestic and export natural gas prices during the period November 1988 to April 1989 showed that prices paid in the domestic market for Canadian natural gas continue to be lower than export prices. Alberta's natural gas sold in domestic markets experienced an overall price decline due to price reductions associated with renegotiation of long term purchase contracts with distributors. Canadians' price advantage therefore increased. In export markets, prices increased one cent per gigajoule over the six month period. In British Columbia, the domestic market was stable in both price and volume terms. Export market sales grew significantly, shifting towards short-term firm contracts and interruptible sales categories. Domestic sales under such categories of contract were lower priced than comparable sales in export markets.

A1
(continued)

Oct 2
The Ministers of Energy for Canada and for Alberta announced an agreement providing for $28 million in Market Development Incentive Payments. The funds will be directed to projects which will contribute, over the next five years, to a viable, self sustaining natural gas vehicle industry in Canada and achieve an initial market penetration of methanol as a vehicle fuel.

Nov 3
A $506 million agreement on the construction of the Vancouver Island Natural Gas Pipeline was signed by Canada, and British Columbia who each will contribute $150 million, and the Pacific Coast Energy Corporation which is equally owned by Westcoast Energy Inc. and Alberta Energy Co.

A2 Petroleum Supply and Demand Summary[a] [b]

First six months

	1988	1989	Change
	thousands m^3/day		%
Production			
Crude Oil	271	268	- 1
Natural Gas Liquids[c]	43	49	13
Total Production	**314**	**317**	**1**
Net Exports[d]			
Crude Oil	46	29	- 36
Natural Gas Liquids	16	17	6
Refined Products	17	6	- 66
Total Net Exports	**79**	**52**	**- 34**
Consumption			
Natural Gas Liquids	37	38	2
Refined Products	232	245	5
Total Consumption	**269**	**283**	**5**

Notes:

(a) Petroleum includes conventional and synthetic crude oil and natural gas liquids (propane, butane and ethane) derived from gas plants and gas reprocessing plants. Data on the production, net exports and consumption do not represent a complete supply/demand balance as industry's own use and stock changes are not shown.

(b) Figures represent total industry activity and are derived from a number of sources:
- Production – Statistics Canada (Catalogue 26-006)
- Net Exports – EMR Oil Supply Branch
- Consumption – Statistics Canada (Catalogue 45-004)

(c) Does not include refinery production of 8.4 thousand m^3/d in the first six months of 1989 and 9.1 thousand m^3/d in the corresponding 1988 period.

(d) On a gross basis, crude oil imports (including exchange receipts) for the first half of 1988 and 1989 were 70,300 m^3/d and 75,700 m^3/d (442,400 b/d and 476,400 b/d) respectively, or 26% and 27% of domestic consumption in those periods.

A3 Natural Gas Supply and Demand Summary[a]

First six months

	1988	1989	Change
	millions m^3/day		%
Production			
Gross New Production	358	384	7
less:			
Injected, Shrinkage and Adjustments	73	83	13
Indigenous Supply	285	301	6
less:			
Producer Consumption	31	32	3
Marketable Production	**254**	**269**	**6**
Net Exports	**99**	**102**	**2**
Consumption			
Energy Use	153	171	11
Non-energy Use	12	13	12
Converted to Electricity and Other	- 10	- 17	-
Total Consumption	**155**	**167**	**8**
NEB Export Authorization	**152**	**158**	**4**

Note:

(a) Figures represent total industry activity and are derived from a number of sources:
- Production – Statistics Canada (Catalogue 26-006)
- Net Exports – EMR Oil Supply Branch
- Consumption – Statistics Canada (Catalogue 45-004)

A4 Canadian Natural Gas Prices: 1974-1989 in dollars per gigajoule

	Field Gate Including Export Flow Back	Alberta Border	Toronto City Gate	Weighted Ontario Sales Realization	Ontario Market		
					Residential	Commercial	Industrial
1974	–	0.28	0.55	0.83	1.26	0.94	0.64
1975	–	0.53	0.82	1.13	1.56	1.21	0.94
1976	0.98	0.84	1.24	1.61	2.04	1.69	1.40
1977	1.21	1.04	1.47	1.85	2.44	1.96	1.37
1978	1.44	1.28	1.77	2.14	2.74	2.22	1.90
1979	1.66	1.36	1.92	2.35	3.03	2.43	2.06
1980	2.30	1.61	2.23	2.69	3.43	2.73	2.36
1981	2.34	1.75	2.42	3.40[a]	4.24	3.41	3.03
1982	2.53	2.01	2.80	4.16[a]	4.93	4.12	3.70
1983	2.48	2.48	3.38	4.74[a]	5.72	4.78	4.15
1984	2.61	2.78	3.71	4.77	5.79	4.86	4.16
1985	2.47	2.80	3.76	4.76	5.84	4.86	4.14
1986[b]	2.32	2.80	3.78	4.73	5.79	4.81	4.04
1987	–	–	–	4.39	6.01	4.72	3.54
1988							
Jan				4.51	5.48	4.64	3.33
Feb				4.48	5.49	4.62	3.28
Mar				4.57	5.51	4.57	3.64
Apr				4.38	5.53	4.58	3.32
May				4.38	5.85	4.65	3.50
Jun				4.09	6.01	4.29	3.45
Jul				4.30	6.14	4.33	3.66
Aug				4.24	6.92	4.72	3.38
Sep				4.29	6.73	4.60	3.53
Oct				4.28	5.78	4.53	3.38
Nov				4.50	5.55	4.53	3.76
Dec				4.58	5.44	4.53	3.79
Average				4.38	5.87	4.55	3.50
1989							
Jan				4.54	5.24	4.63	3.65
Feb				4.60	5.39	4.55	3.79
Mar				4.61	5.41	4.59	3.81
Apr				4.25	5.19	4.28	3.44
May				3.45	4.22	3.37	3.05
Jun				3.06	4.48	2.43	2.73

Source:
Statistics Canada (Catalogue 55-002)

Notes:
(a) The rising average sales realizations for the years 1981 to 1983 reflect the imposition of the Natural Gas and Gas Liquids Tax.
(b) Effective November 1, 1986, a new gas agreement between the federal and provincial governments provided for the deregulation of natural gas prices and markets. As a result, the price of natural gas in domestic markets is now subject to the interplay between buyers and sellers.

A5 Canadian Crude Oil Prices: 1979 – 1989

	Conventional Crude Oil Wellhead Price[a]		Petroleum Compensation & Other Charges		Cost of Crude Oil Exclusive of Transportation[b]		Refiner Acquisition Cost at Montreal	
	$/bbl	$/m³	$/bbl	$/m³	$/bbl	$/m³	$/bbl	$/m³
1979								
Jan 1	12.75	80.23	0.33	2.08	13.08	2.31	14.13	88.92
Jul 1	13.75	86.53	0.33	2.08	14.08	88.61	15.13	95.21
1980								
Jan 1	14.75	92.83	0.85	5.35	15.60	98.18	16.65	104.78
Aug 1	16.75	105.41	1.75	11.01	18.50	116.42	19.73	124.16
Nov 1			2.55	16.04	19.30	121.45	20.53	129.20
1981								
Jan 1	17.75	111.70	5.05	31.77	22.80	143.47	24.07	151.47
1982								
Jan 1	23.50	147.89	7.45	46.89	30.95	194.78	32.54	204.77
1983								
Jan 1	29.75	187.22	4.91	30.89	34.66	218.11	35.79	225.25
1984								
Nov 10	29.75	187.22	7.69	48.39	37.44	235.61	39.44	248.21
1985								
Jun 1	36.40	229.06					38.30	241.02
Dec	37.06	233.22					38.99	245.36
1986								
Jan	32.79	206.34					34.76	218.93
Feb	22.20	139.70					24.18	152.16
Jul	14.60	91.88					16.58	104.34
Dec	19.23	121.01					21.30	134.04
1987								
Jan	22.74	143.10					24.87	156.51
Mar	20.36	128.13					22.48	141.47
Jul	25.17	158.39					27.32	171.92
Dec	20.95	131.84					23.14	145.62
1988								
Jan	19.44	122.34					21.60	135.93
Feb	19.02	119.69					21.17	133.22
Mar	17.67	111.20					19.81	124.66
Apr	19.10	120.20					21.23	133.60
May	19.43	122.27					21.56	135.68
Jun	18.43	115.98					20.55	129.32
Jul	16.20	101.95					18.32	115.29
Aug	16.77	105.54					18.90	118.94
Sep	15.94	100.31					18.05	113.71
Oct	14.43	90.81					16.55	104.15
Nov	14.54	91.50					16.65	104.77
Dec	16.04	100.94					18.15	114.22
1989								
Jan	18.52	116.55					20.67	130.05
Feb	18.43	115.98					20.57	129.47
Mar	19.84	124.83					21.99	138.34
Apr	21.88	137.71					24.03	151.21
May	21.72	136.67					23.86	150.18
Jun	21.53	135.47					23.68	149.00
Jul	21.57	135.71					23.74	149.37
Aug	19.47	122.54					21.66	136.32

Notes:

(a) Starting June 1, 1985, i.e. following deregulation, the wellhead price shown here is the Edmonton purchase price less estimated gathering costs of approximately $3.90/m³ (62¢/bbl).

(b) Gathering and transportation costs, and charges as applicable, make up the difference between the wellhead price and the refiner acquisition cost at Montreal. These costs amounted to $13.43/m³ ($2.13/bbl) on June 1, 1989.

A6 Average Crude Oil Refiner Acquisition Costs by Region

in dollars per cubic metre[1]

	British Columbia	Prairie Provinces	Ontario	Quebec[2]	Atlantic[2]	Total Canada
1988						
Jan	140.84	125.80	141.49	141.51	143.73	138.01
Feb	133.92	123.34	134.14	136.80	139.70	131.96
Mar	123.91	114.66	128.33	127.56	126.62	124.10
Apr	124.29	124.22	124.86	123.18	125.67	124.35
May	126.80	127.06	127.72	126.16	126.49	127.06
Jun	127.37	116.23	128.66	125.32	122.59	124.10
Jul	123.72	105.92	122.02	117.99	115.61	116.11
Aug	116.46	107.30	116.50	118.09	117.99	114.27
Sep	113.90	103.19	114.30	112.19	111.41	110.59
Oct	108.53	93.36	108.37	107.10	101.88	103.77
Nov	100.83	93.78	103.40	102.78	101.55	100.26
Dec	103.73	102.56	105.53	107.58	111.01	105.47
1989						
Jan	118.38	120.57	114.57	115.24	122.61	117.85
Feb	120.52	117.45	125.99	129.19	134.98	125.58
Mar	126.20	129.63	129.61	134.30	139.86	131.55
Apr	135.89	140.73	138.20	143.74	148.35	141.06
May	145.13	139.62	147.53	143.84	146.72	144.63
Jun	145.86	137.99	147.91	143.25	144.21	143.78
Jul	144.89	139.40	148.08	139.94	137.29	142.53
Aug	141.41	125.61	144.25	133.13	131.26	134.92

(1) The variation in average refiner acquisition cost by region is due to quality differences and the lag time between the actual purchase and delivery dates. Assuming an estimated delivery time from Edmonton to Montreal of six weeks, receipts of any given month at Montreal reflect a mixture of crude purchases made during the two previous months.

(2) The exact average cost of crude oil imports is not available for Quebec and the Atlantic region due to confidentiality considerations. Therefore, the average cost of imports for total eastern Canada has been used to determine the regional averages for Quebec and Atlantic.

A7 Average Crude Oil Transporation Costs from Edmonton

in dollars per cubic metre[1]

	Vancouver	Regina	Sarnia	Toronto	Montreal
1988					
Jan	6.29	2.05	7.55	8.12	9.63
Feb	6.29	2.05	7.48	8.12	9.63
Mar	6.29	2.05	7.42	8.04	9.56
Apr	6.29	2.05	7.37	8.00	9.51
May	6.29	2.05	7.38	8.00	9.52
Jun	6.29	2.05	7.31	7.94	9.45
Jul	6.29	2.05	7.28	7.90	9.42
Aug	5.78	2.05	7.33	7.96	9.48
Sep	5.78	2.05	7.34	7.96	9.48
Oct	5.78	2.05	7.26	7.89	9.40
Nov	5.78	2.05	7.30	7.93	9.44
Dec	5.78	2.05	7.24	7.86	9.38
1989					
Jan	5.78	2.13	7.37	8.02	9.60
Feb	5.78	2.13	7.36	8.02	9.59
Mar	6.72	2.13	7.39	8.04	9.61
Apr	6.72	2.13	7.37	8.03	9.60
May	6.72	2.13	7.39	8.04	9.61
Jun	6.72	2.13	7.40	8.06	9.63
Jul	6.72	2.19	7.47	8.14	9.76
Aug	6.72	2.25	7.53	8.22	9.88
Sep	6.72	2.25	7.54	8.24	9.89

Source:
Energy, Mines and Resources Canada, Petroleum and Emergency Planning Branch

(1) Includes pipeline tariffs and pipeline losses but excludes trucking charges.

A8 Canadian Acquisition Costs vs. Product Prices in cents per litre

	Average Unit Revenue from Total Petroleum Product Sales[1]	Average Refiner Acquisition Cost (Unit) (lagged 60 days)[2]	Differential (To cover R&M Costs and Profits, and Retail Margin)
1985			
Dec	33.74	23.47	10.27
1986			
Jan	34.37	23.09	11.28
Feb	34.25	23.06	11.19
Mar	31.82	23.05	8.77
Apr	27.93	19.36	8.57
May	25.82	14.53	11.29
Jun	25.72	11.73	13.99
Jul	24.91	11.73	13.18
Aug	23.91	11.78	12.13
Sep	23.84	10.68	13.16
Oct	23.71	11.10	12.61
Nov	23.58	12.03	11.55
Dec	23.34	12.50	10.84
1987			
Jan	22.74	12.48	10.26
Feb	23.86	12.90	10.96
Mar	24.08	14.02	10.06
Apr	24.20	14.77	9.43
May	23.38	14.32	9.06
Jun	24.34	14.88	9.46
Jul	24.54	15.00	9.54
Aug	24.79	15.49	9.30
Sep	25.14	16.17	8.97
Oct	24.65	16.44	8.21
Nov	25.00	15.89	9.11
Dec	24.99	15.45	9.54
1988			
Jan	24.43	15.46	8.97
Feb	23.98	14.69	9.29
Mar	23.63	13.80	9.83
Apr	23.31	13.20	10.11
May	22.88	12.41	10.47
Jun	22.62	12.43	10.19
Jul	22.84	12.71	10.13
Aug	22.16	12.41	9.75
Sep	21.81	11.61	10.20
Oct	21.61	11.43	10.18
Nov	21.67	11.06	10.61
Dec	20.67	10.38	10.29
1989			
Jan	21.22	10.03	11.19
Feb	21.75	10.55	11.20
Mar	22.05	11.79	10.26
Apr	22.44	12.56	9.88
May	23.35	13.16	10.19
Jun	23.36	14.11	9.25

Sources:
(1) Statistics Canada, Prices Division
(2) Energy, Mines and Resources Canada, Petroleum and Emergency Planning Branch

A9 Average Net Prices for Selected Major Petroleum Products and Trade Classes by Region in cents per litre[1]

First six months

	1988	1989	Change[2]
Regular Unleaded Gasoline – Branded Retail			
Atlantic	29.7	27.7	– 6.7
Quebec	29.6	27.6	– 6.7
Ontario	26.2	24.8	– 5.3
Prairies	25.9	24.9	– 3.4
Pacific	26.1	27.2	4.2
Total Canada	27.2	25.9	– 4.8
Diesel Fuel – Commercial and Industrial			
Atlantic	21.5	20.7	– 3.7
Quebec	20.1	19.3	– 3.9
Ontario	20.7	18.9	– 8.7
Prairies	20.1	18.7	– 6.9
Pacific	20.5	19.3	– 5.6
Total Canada	20.4	19.1	– 6.4
Light Fuel Oil – Branded Retail			
Atlantic	27.5	25.7	– 6.5
Quebec	26.6	24.3	– 8.6
Ontario	29.9	26.8	– 10.4
Pacific	28.1	26.7	– 4.9
Total Canada	28.4	25.8	– 9.2
Heavy Fuel Oil # 6 – All trade classes			
Atlantic	11.5	11.3	– 1.7
Quebec	10.6	9.7	– 8.5
Ontario	11.9	11.4	– 4.2
Pacific	10.0	9.3	– 7.0
Total Canada	11.6	11.2	– 3.4
Total Petroleum Products[3] – All trade classes			
Atlantic	23.2	21.6	– 6.9
Quebec	22.2	21.8	– 1.8
Ontario	23.8	22.4	– 5.6
Prairies	24.2	22.7	– 6.2
Pacific	22.9	23.3	1.7
Total Canada	23.4	22.4	– 4.3

Source:
Statistics Canada, Prices Division

(1) Weighted average prices shown were derived from volumes and sales revenue data reported through a survey of major refiners for a wide range of finely specified products and trade classes. The prices are net of provincial road taxes, federal sales and excise taxes, and dealer margins.

(2) This represents the change in net prices compared to the year earlier period.

(3) This represents the summation of petroleum products from the sample selection reported to Statistics Canada in their survey.

A10 Petroleum Product Prices for Selected Major Products Sold to Private Brand Resellers

First six months

	1988		1989	
	Price ¢ / litre	Market Share[1] %	Price ¢ / litre	Market Share[1] %
Premium Unleaded Gasoline				
Quebec	21.4	9.4	22.1	10.9
Ontario	21.6	10.7	21.1	13.1
Prairies	20.1	4.4	20.2	5.5
Regular Unleaded Gasoline				
Quebec	19.8	11.2	18.9	15.6
Ontario	19.9	20.1	19.4	23.5
Prairies	20.4	9.3	19.1	9.7
Regular Leaded Gasoline				
Quebec	18.6	18.9	18.2	20.7
Ontario	19.2	25.5	18.8	24.2
Prairies	18.7	12.3	16.8	15.9
Diesel Fuel				
Quebec	18.6	15.4	18.8	15.4
Ontario	18.6	13.3	17.9	11.9
Light Fuel Oil				
Quebec	18.4	31.1	17.3	25.6
Ontario	19.1	29.3	17.4	28.4
Pacific	23.9	16.2	20.3	16.2

Source:
Statistics Canada, Prices Division

(1) Reflects an estimated market share of sales by reporting refiners, excluding product imports.

A11 Oil Products Sales Volumes: Refiners and Marketers

in millions of cubic metres
First six months

	Nationals			Regionals			Total		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Clean Products	23.2	24.1	4	9.8	10.5	7	33.0	34.6	5
Heavy and Specialty Products	4.8	5.2	9	2.3	2.5	11	7.1	7.7	9
Total Sales	**28.0**	**29.4**	**5**	**12.1**	**13.0**	**8**	**40.1**	**42.4**	**6**
less: Exports	1.6	1.4	– 11	1.0	1.0	9	2.6	2.5	– 3
Gross Sales in Canada	**26.4**	**28.0**	**6**	**11.1**	**11.9**	**7**	**37.5**	**39.9**	**6**
less: Sales to Other Refiners	–	1.1	–	0.1	0.2	54	0.1	1.3	–
Net Sales in Canada	**26.5**	**26.9**	**1**	**11.0**	**11.7**	**7**	**37.5**	**38.6**	**3**

A12 Net Income by Sector and Segment in millions of dollars

First six months

	1988	1989	Change	Change %
Canadian-Controlled Companies				
Upstream	218	302	84	39
Downstream	175	219	44	25
Other Canadian Operations	46	– 32	– 78	–
Foreign Activities	0	– 1	– 1	–
Total Canadian-Controlled	**439**	**488**	**49**	**11**
Foreign-Controlled Companies				
Upstream	241	212	– 29	– 12
Downstream	413	464	51	12
Other Canadian Operations	24	– 135	– 159	–
Foreign Activities	87	85	– 1	– 1
Total Foreign-Controlled	**764**	**626**	**– 138**	**– 18**
Total Industry				
Upstream	459	514	55	12
Downstream	588	683	95	16
Other Canadian Operations	70	– 168	– 237	–
Foreign Activities	87	84	– 3	– 3
Grand Total	**1203**	**1113**	**– 90**	**– 7**

A13 Rates of Return: Canadian Petroleum Industry in percent

	1984	1985	1986	1987	1988	First Six Months 1989	Five-Year Average ending in 1988	Five-Year Average ending in 1989
Return on Average Capital Employed								
Upstream								
Canadian-Controlled Companies	6.2	5.1	– 4.0	4.9	4.2	3.9	3.3	2.8
Foreign-Controlled Companies	11.4	9.5	4.2	9.0	3.0	3.5	7.4	5.8
Total Industry	8.4	6.9	– 0.8	6.5	3.6	3.7	4.9	4.0
Downstream[a]								
Canadian-Controlled Companies	3.9	– 1.8	5.9	3.9	6.7	6.0	3.7	4.2
Foreign-Controlled Companies	4.0	3.2	7.5	8.2	9.0	9.3	6.4	7.5
Total Industry*	4.0	1.4	6.8	6.4	8.1	8.1	5.3	6.2
Total Operations[b]								
Canadian-Controlled Companies	6.1	3.9	– 4.2	4.8	4.8	4.8	3.1	2.8
Foreign-Controlled Companies	8.3	7.2	4.4	8.4	5.0	5.0	6.6	6.0
Total Industry	7.1	5.2	– 0.8	6.3	4.9	4.9	4.6	4.1
*Memo:								
National Refiners/Marketers	3.3	0.8	6.6	5.9	6.7	7.4	4.7	5.5
Regional Refiners/Marketers	6.2	2.8	7.4	7.7	11.3	9.6	7.1	7.8
Return on Average Equity								
Canadian Operations								
Canadian-Controlled Companies	5.9	3.5	– 14.5	5.3	6.4	5.1	1.3	1.2
Foreign-Controlled Companies	12.7	11.1	5.9	12.6	6.1	5.0	9.6	8.1
Total Industry	9.5	7.1	– 4.8	8.9	6.2	5.0	5.4	4.5
Total Operations[b]								
Canadian-Controlled Companies	6.6	3.6	– 18.4	5.3	5.8	5.0	0.6	0.3
Foreign-Controlled Companies	12.7	11.0	5.9	12.6	6.0	5.6	9.6	8.2
Total Industry	9.8	7.1	– 7.1	8.8	5.9	5.3	4.9	4.0

Notes:

(a) Downstream here represents oil products operations only, i.e. it excludes petrochemical and other downstream operations.

(b) Upstream, downstream (here also includes petrochemicals and other downstream activities), other Canadian and foreign operations.

A14 Rates of Return: Non-Financial Industries Excluding Petroleum

in percent

	1984	1985	1986	1987	1988	First Six Months 1989	Five-Year Average ending in 1988	Five-Year Average ending in 1989
Return On Shareholders Equity[a]								
Non-Financial Industries	10.8	9.7	9.6	11.4	13.5	12.5	11.0	11.3
Manufacturing	12.1	10.2	10.5	13.3	17.0	13.7	12.6	12.9
Mining	2.2	0.7	1.2	10.8	9.6	19.0	4.9	8.2
Other Industries	11.5	11.3	10.5	9.4	9.8	9.4	10.5	10.1
Return On Capital Employed[b]								
Non-Financial Industries	8.2	7.6	7.4	8.6	9.4	8.7	8.3	8.4
Manufacturing	9.7	8.4	8.5	10.3	12.3	10.0	9.8	9.9
Mining	3.4	1.9	2.2	8.7	9.6	13.5	5.1	7.2
Other Industries	8.0	7.9	7.5	6.9	7.1	6.9	7.5	7.3

Source: Statistics Canada 61-003, Industrial Corporations Quarterly

Notes:

(a) Return on equity is defined as net profit after tax and extraordinary items, divided by average book equity. It measures the rate of return on shareholders' investment (paid-in capital and retained earnings). This measure is often used to compare the performance of companies that may vary by type and by size.

(b) Capital employed is defined as total assets, less current liabilities. The net income figures used to compute rate of return on capital employed have been adjusted by adding the after-tax interest expense on borrowed funds.

A15 Reinvestment Rates in percent

First six months

	Total[a]		Upstream[b]		Upstream[c] plus Downstream	
	1988	1989	1988	1989	1988	1989
Integrateds & Refiners	64	62	93	71	65	53
Oil and Gas Producers						
Senior Producers	101	70	99	66	97	64
Junior Producers	154	108	145	113	172	115
Total Oil and Gas Producers	119	82	114	81	120	79
Total Industry	**94**	**73**	**107**	**77**	**93**	**66**
Canadian-Controlled	105	80	109	84	105	71
Foreign-Controlled	86	69	105	73	85	63

Notes:

(a) Total capital expenditures (net of incentive grants) as a percentage of total internal cash flow. The calculations do not reflect changes in inventories. Had changes in the cost of inventories been included, the reinvestment rate would have been 94% in the first half of 1989 vs. 85% in 1988.

(b) Upstream capital expenditures (net of incentive grants) in Canada as a percentage of upstream cash flow.

(c) Net upstream plus downstream ('petroleum-related') capital expenditures in Canada as a percentage of internal cash flow generated by petroleum-related activities.

A16 Gross Exploration Expenditures in Canada by Area in millions of dollars

First six months

	1988	1989	Change %
Provincial Lands			
British Columbia	122	192	57
Alberta	1157	871	- 25
Saskatchewan	89	62	- 31
Other Provinces	8	3	- 58
Total Provincial Lands	**1377**	**1128**	**- 18**
Canada Lands			
Beaufort Sea	123	75	- 39
Labrador East	91	63	- 30
Atlantic Shelf South	46	9	- 80
Other Canada Lands	21	36	71
Total Canada Lands	**281**	**183**	**- 35**
Total Canada	**1657**	**1312**	**- 21**

A17 Incentive Grants by Area and Type of Expenditure in millions of dollars

First six months

	Exploration	Development and Production	Total	Canadian-Controlled	Foreign-Controlled
British Columbia					
1988	4	5	9	3	6
1989	6	7	13	6	7
Alberta					
1988	69	55	124	63	61
1989	45	35	79	46	33
Saskatchewan					
1988	6	10	16	12	4
1989	2	7	10	8	2
Other Provinces					
1988	3	1	3	1	2
1989	1	1	1	1	–
Beaufort Sea					
1988	- 1	–	- 1	- 2	–
1989	–	–	–	–	–
Labrador East					
1988	2	–	2	–	2
1989	–	–	–	–	–
Atlantic Shelf South					
1988	6	–	6	5	–
1989	–	–	–	–	–
Other Canada Lands					
1988	–	–	–	–	–
1989	–	–	–	–	–
Total					
1988	88	71	159	83	76
1989	54	50	104	61	43

A18 Well Completions and Metres Drilled in Canada

First six months

	Exploratory			Development		
	1988	1989	Change %	1988	1989	Change %
Well Completions in number of wells						
British Columbia	51	56	10	67	81	21
Alberta	1222	897	– 27	2013	1044	– 48
Saskatchewan	297	214	– 28	752	348	– 54
Other Provinces	44	39	– 11	48	31	– 35
Northern Canada[a]	5	2	– 60	7	2	– 71
Offshore[b]	1	2	100	–	–	–
Total	**1620**	**1210**	**– 25**	**2887**	**1506**	**– 48**
Metres Drilled in thousands						
British Columbia	104	90	– 13	110	146	33
Alberta	1791	1296	– 28	2133	1145	– 46
Saskatchewan	289	176	– 39	706	271	– 62
Other Provinces	33	32	– 1	48	18	– 63
Northern Canada[a]	11	6	– 45	10	–	–
Offshore[b]	4	6	50	–	–	–
Total	**2232**	**1606**	**– 28**	**3007**	**1588**	**– 47**

Source:
Oilweek, July 17, 1989

Notes:
(a) All areas in Canada North of 60°, including Hudson Bay.
(b) East coast and West coast offshore areas.

A19 Comparison of Interest Charges with Income before Interest and Taxes: 1989 in millions of dollars[a]

First six months

	(1) Income Before Interest and Taxes	(2) Interest Charges Incurred	(3) Interest Coverage Ratio times
Integrateds and Refiners	**1820**	**547**	**3.3**
Oil and Gas Producers			
Senior Producers	883	463	1.9
Junior Producers	332	276	1.2
Total Oil and Gas Producers	1215	738	1.6
Total Industry	**3035**	**1286[b]**	**2.4**
Canadian-Controlled	1177	510	2.3
Foreign-Controlled	1858	776	2.4

Notes:
(a) The figures in Column 1 represent the total of income from total operations before taxes and expensed interest. Column 2 shows total interest charges incurred (both expensed and capitalized). Column 3 is the ratio of Column 1 to Column 2.
(b) In addition to the $1.2 billion of interest charges expensed in the first six months of 1989, $75 million was capitalized (mostly by foreign-controlled companies).

A20 Dividend Payments

First six months

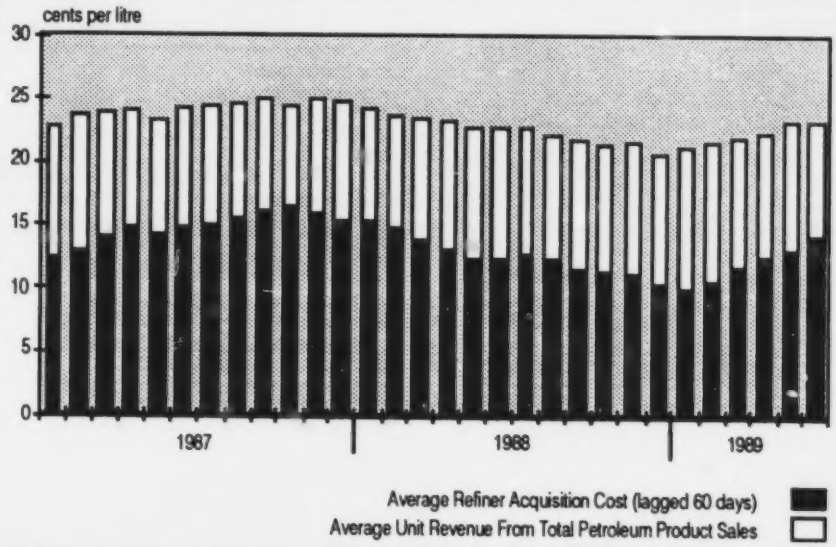
	1988	1989	1988	1989
	$ millions		% of net income[a]	
Integrateds and Refiners	**338**	**519**	**42**	**63**
Oil and Gas Producers				
Senior Producers	280	200	99	94
Junior Producers	68	77	56	95
Total Oil and Gas Producers	349	277	86	94
Total Industry	**687**	**796**	**57**	**72**
Canadian-Controlled	246	333	56	68
Foreign-Controlled	441	464	58	74

Note:
(a) Derived by dividing dividend payments for each company group by their net income on total operations (Appendices B1 to B7).

A21 Income and Expense Statement: 1980 – 1989 as percent of revenues

	1980	1981	1982	1983	1984	1985	1986	1987	1988	First Six Months 1989
Upstream										
Revenues	100	100	100	100	100	100	100	100	100	100
Royalties and other Payments	31	29	27	25	24	23	18	17	16	16
PGRT and other Taxes	–	6	9	8	8	7	3	–	–	–
Interest Expenses	–	–	7	6	6	6	10	9	9	7
Operating Costs and other Cash Items	21	27	20	18	18	20	33	29	38	36
Current Income Tax	6	8	9	11	11	11	5	6	–	2
Cash Flow	41	30	28	31	32	34	31	38	37	38
Depreciation, Depletion and Amortization	8	8	8	12	10	11	23	21	26	23
Other Non-cash Charges	9	8	5	4	3	3	6	4	6	7
Deferred Income Tax	7	5	5	5	7	6	–	2	2	2
Extraordinary Gains	–	–	–	–	–	– 3	– 12	1	3	–
Net Income	18	10	10	11	12	10	– 11	12	6	6
Downstream										
Revenues	100	100	100	100	100	100	100	100	100	100
Sales, Excise and other Taxes	7	6	6	6	6	7	11	14	16	16
Cost of Goods Sold	69	75	80	83	80	79	68	64	58	57
Interest Expenses	–	1	1	1	1	1	–	–	–	1
Operating Costs and other Cash Items	11	9	10	10	9	10	13	13	14	15
Current Income Tax	4	3	-1	-1	–	–	2	2	3	3
Cash Flow	9	7	4	3	3	3	6	6	9	9
Depreciation, Depletion and Amortization	2	1	2	2	2	2	3	3	3	3
Other Non-cash Charges	–	–	–	–	–	–	–	–	–	–
Deferred Income Tax	1	1	1	1	–	–	–	–	1	1
Extraordinary Gains	–	–	–	–	–	–	– 1	–	–	–
Net Income	6	4	1	–	1	1	3	3	5	5

A22 Canadian Crude Oil Acquisition Costs vs. Petroleum Product Prices



During the first six months 1989 the difference between average refined product prices (excluding provincial sales tax) and average refiner acquisition costs of crude oil ranged from a low of 9.3¢ to a high of 11.2¢ per litre. The corresponding 1988 figures were slightly lower with a range of 9.0¢ to 10.5¢ per litre.

A23 International Flows of Funds: 1988 in millions of dollars

	Current Account				Capital Account			
	Interest	Dividends	Business Service Payments	Total	Direct	Other	Total	**Grand Total**
International Transactions Related to Long-Term Investments in Canada								
Canadian-Controlled	-162	-10	-1	-174	-5	459	454	280
Foreign-Controlled	-551	-1311	-244	-2106	36	231	267	-1839
Inflows (Outflows)	**-714**	**-1321**	**-245**	**-2280**	**31**	**690**	**721**	**-1559**
International Transactions Related to Long-Term Investments Abroad								
Canadian-Controlled	-	34	2	36	-355	-	-355	-319
Foreign-Controlled	14	129	49	192	-170	-	-170	22
Inflows (Outflows)	**14**	**163**	**51**	**228**	**-525**	**-**	**-525**	**-297**
Total								
Canadian-Controlled	-162	24	1	-138	-360	459	99	-39
Foreign-Controlled	-537	-1182	-195	-1914	-134	231	97	-1817
Inflows (Outflows)	**-700**	**-1158**	**-194**	**-2052**	**-494**	**690**	**196**	**-1856**
International Transactions Related to Short-Term Investments								
Canadian-Controlled					7	763	770	770
Foreign-Controlled					516	-152	364	364
Inflows (Outflows)					**523**	**611**	**1134**	**1134**

Note:
Direct transactions are those which are between related companies (non-arm's length).

A24 Capital Employed by Component in millions of dollars

	1987			1988		
	Canadian-Controlled	Foreign-Controlled	Total	Canadian-Controlled	Foreign-Controlled	Total
Long-Term Debt						
Bonds, Debentures, etc.	4299	2249	6549	3569	6238	9807
Parent held	264	1675	1939	421	1472	1893
Bank loans	9173	3032	12205	3401	4861	8262
Other	1959	310	2268	690	280	970
Total Long-Term Debt	**15695**	**7266**	**22961**	**8081**	**12851**	**20932**
Equity						
Preferred Shares	5703	537	6240	3987	1211	5198
Common Shares						
Book Value	11949	3765	15714	11719	4947	16666
Retained Earnings	571	13341	13912	3863	14395	18257
Contributed Surplus	1989	984	2973	916	976	1893
Total Equity Value	**20212**	**18627**	**38839**	**20485**	**21529**	**42014**
Total Capital Employed	**35907**	**25893**	**61800**	**28565**	**34381**	**62946**
Minority Interest	**66**	**296**	**362**	**71**	**373**	**444**
Long-Term Debt by Interest Rate						
Fixed Rate	4864	4172	9036	4212	5977	10189
Floating (Prime or Libor)	10831	3095	13926	3869	6874	10743
– as percent of the total	*69.0*	*42.6*	*60.7*	*47.9*	*53.5*	*51.3*

A25 Current Year Deductions and Tax Pools Remaining[1] in millions of dollars

	Canadian-Controlled			Foreign-Controlled		
	Deductions	Remaining Balance	Utilization Rate[2] %	Deductions	Remaining Balance	Utilization Rate[2] %
1987						
CCA	1212	4712	20	1769	6042	23
CEE	427	1008	30	769	890	46
CDE	346	1327	21	622	1595	28
Earned Depletion	83	636	12	176	1289	12
COGPE	210	2144	9	260	2592	9
FE&D	53	419	11	32	262	11
Total	**2863**	**10786**	**21**	**3895**	**13147**	**23**
1988						
CCA	1075	5225	17	1311	5918	18
CEE	615	968	39	802	970	45
CDE	458	1288	26	426	1486	22
Earned Depletion	83	640	12	176	1163	13
COGPE	222	2784	7	293	2953	9
FE&D	53	464	10	38	237	14
Total	**2511**	**11879**	**17**	**3047**	**13254**	**19**

(1) Abbreviations:
CCA = Capital Cost Allowance
CEE = Canadian Exploration Expense
CDE = Canadian Development Expense
Earned Dep. = Earned Depletion Alowance
COGPE = Canadian Oil and Gas Property Expense
FE&D = Foreign Exploration and Development Expense
Totals include other tax categories that are not individually specified, such as COA with remaining pools in excess of $800 million.

(2) Utilization rate is the ratio of deductions to remaining balances before deductions.

Appendix B Complete Survey Results

B1

Income and Expense Statement – All Operations in millions of dollars
Total Industry
First six months

	Upstream			Downstream			Other Operations			Foreign Activities			Total Operations		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Total Revenues	8385	8560	2.1	13058	13453	3.0	1403	1328	-5.4	652	744	14.1	23499	24085	2.5
Royalties and other Payments	1378	1375	-0.2	0	0	–	0	0	–	0	0	–	1378	1375	-0.2
PGRT and other Taxes	0	0	–	1968	2120	7.7	5	5	11.3	39	32	-18.7	2012	2158	7.2
Total Revenue after Royalties	7007	7185	2.5	11090	11333	2.2	1398	1323	-5.4	613	712	16.2	20108	20553	2.2
Cost of Goods Sold	0	0	–	7878	7694	-2.3	451	580	28.5	135	171	26.7	8464	8444	-0.2
Interest Expenses	756	638	-15.7	40	101	149.3	265	468	76.6	11	6	-50.3	1073	1212	13.0
Operating Costs	2852	2985	4.7	1795	1970	9.7	444	496	11.8	155	151	-2.7	5246	5602	6.8
R&D Costs (Excluding Oil Sands)	30	21	-31.3	21	25	21.5	0	0	24.7	1	4	–	51	50	-2.5
Other Expenses	78	66	-15.6	7	1	-81.8	83	38	-53.8	26	10	-62.6	193	115	-40.6
Oil Sands R&D Expensed	11	9	-18.3	0	0	–	0	0	–	0	0	–	11	9	-17.6
E&D Expensed	568	483	-15.0	0	0	–	22	17	-23.1	41	64	53.5	631	563	-10.8
Depreciation	535	587	9.8	367	388	5.6	102	96	-5.6	35	31	-10.2	1038	1102	6.1
Depletion	1029	1113	8.2	0	0	–	8	12	50.1	128	132	3.1	1164	1257	7.9
Write-Offs and Amortization	255	392	53.7	8	24	212.3	-38	-45	–	-37	4	–	189	376	99.0
Non-Cash Charges and E&D	2398	2584	7.8	375	412	9.8	94	79	-15.4	167	231	38.1	3034	3307	9.0
Income before Taxes	893	892	-0.1	973	1129	16.0	61	-339	–	119	141	18.4	2047	1822	-11.0
Federal Income Tax	246	199	-19.0	245	245	0	-1	-72	–	36	47	31.2	527	420	-20.3
Provincial Income Tax	-17	-3	–	100	108	7.3	2	-41	–	5	0	–	90	63	-29.8
Current Income Tax	230	197	-14.3	346	353	2.1	1	-113	–	41	47	15.3	617	483	-21.7
Income after Current Income Tax	664	695	4.8	628	776	23.6	60	-226	–	78	93	20.0	1429	1339	-6.3
Deferred Income Tax	197	166	-16.1	66	95	43.9	-5	-54	–	-9	5	–	249	211	-15.3
Net Income after Taxes	466	530	13.6	562	682	21.3	65	-172	–	87	89	1.9	1180	1128	-4.4
Extraordinary Items	-8	-16	–	26	1	-95.7	5	4	-6.8	0	-4	–	23	-15	–
Net Income After Extraordinary Items	458	514	12.1	588	683	16.2	69	-168	–	87	84	-3.2	1203	1113	-7.4
Internal Cash Flow	3062	3280	7.1	1003	1188	18.5	154	-146	–	245	324	32.3	4464	4646	4.1

B2

Income and Expense Statement – All Operations in millions of dollars

Integrateds and Refiners

First six months

	Upstream			Downstream			Other Operations			Foreign Activities			Total Operations		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Total Revenues	2590	2885	11.4	12798	13039	1.9	748	722	-3.5	123	118	-4.2	16260	16764	3.1
Royalties and other Payments	427	432	1.3	0	0	–	0	0	–	0	0	–	427	432	1.3
PGRT and other Taxes	0	0	–	1968	2120	7.7	2	2	14.1	0	0	–	1970	2122	7.7
Total Revenue after Royalties	2163	2452	13.4	10830	10918	0.8	747	720	-3.6	123	118	-4.2	13863	14209	2.5
Cost of Goods Sold	0	0	–	7790	7491	-3.8	434	550	26.9	84	73	-12.8	8307	8114	-2.3
Interest Expenses	0	41	–	38	70	87.1	164	385	134.8	0	0	–	202	497	146.3
Operating Costs	1003	1126	12.2	1705	1872	9.8	75	113	51.8	11	10	-5.9	2793	3122	11.8
R&D Costs (Excluding Oil Sands)	11	13	17.1	21	23	12.9	0	0	–	0	0	–	32	37	14.8
Other Expenses	2	6	163.1	6	1	-86.0	32	16	-51.9	0	2	–	41	24	-40.9
Oil Sands R&D Expensed	0	0	–	0	0	–	0	0	–	0	0	–	0	0	–
E&D Expensed	226	163	-27.9	0	0	–	11	6	-42.8	0	9	–	237	178	-24.9
Depreciation	176	197	12.0	342	356	4.2	33	44	35.9	1	1	-14.1	551	598	8.5
Depletion	163	176	8.2	0	0	–	0	0	7.6	9	12	28.2	172	188	9.2
Write-Offs and Amortization	140	163	16.6	9	15	62.5	-7	-51	–	1	1	-0.9	143	128	-10.4
Non-Cash Charges and E&D	705	700	-0.8	351	371	5.7	37	0	–	11	22	101.1	1104	1092	-1.0
Income before Taxes	441	567	28.4	920	1089	18.4	5	-344	–	18	11	-36.9	1384	1323	-4.4
Federal Income Tax	98	126	28.1	238	236	-0.8	-24	-87	–	4	3	-23.9	316	278	-12.1
Provincial Income Tax	15	45	201.1	97	103	6.5	-9	-41	–	0	0	–	103	107	3.5
Current Income Tax	113	171	50.7	335	339	1.3	-33	-128	–	4	3	-23.9	419	384	-8.3
Income after Current Income Tax	328	396	20.7	585	750	28.2	38	-216	–	14	8	-40.4	965	938	-2.8
Deferred Income Tax	102	80	-21.6	66	95	44.8	-9	-58	–	5	3	-39.9	164	120	-26.7
Net Income after Taxes	226	316	39.7	519	655	26.1	47	-158	–	9	6	-40.6	801	818	2.1
Extraordinary Items	-30	0	–	26	1	-95.7	0	0	–	0	0	–	-4	1	–
Net Income After Extraordinary Items	196	316	61.1	545	656	20.4	47	-158	–	9	6	-40.6	797	819	2.8
Internal Cash Flow	1033	1095	6.0	936	1122	19.8	75	-216	–	25	30	21.2	2069	2031	-1.8

B3

Income and Expense Statement – All Operations in millions of dollars
Junior Oil and Gas Producers
First six months

	Upstream			Downstream			Other Operations			Foreign Activities			Total Operations		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Total Revenues	1647	1729	5.0	3	115	–	296	264	-10.9	272	238	-12.7	2219	2345	5.7
Royalties and other Payments	288	301	4.6	0	0	–	0	0	–	0	0	–	288	301	4.6
PGRT and other Taxes	0	0	–	0	0	–	0	0	–	27	16	-39.3	27	16	-39.3
Total Revenue after Royalties	1359	1428	5.0	3	115	–	296	264	-10.9	246	221	-9.9	1904	2028	6.5
Cost of Goods Sold	0	0	–	0	85	–	17	0	–	0	0	–	17	85	399.6
Interest Expenses	250	217	-13.2	0	27	–	29	25	-15.4	2	-1	–	282	268	-5.0
Operating Costs	503	526	5.0	2	10	328.8	168	164	-2.5	88	84	-4.0	761	786	3.3
R&D Costs (Excluding Oil Sands)	0	1	–	0	2	–	0	0	–	1	0	–	1	2	268.9
Other Expenses	48	50	2.7	0	0	11.5	32	15	-51.9	14	7	-51.1	94	72	-23.6
Oil Sands R&D Expensed	0	1	89.5	0	0	–	0	0	–	0	0	–	0	1	89.5
E&D Expensed	40	38	-5.1	0	0	–	0	0	–	7	12	82.9	47	50	7.1
Depreciation	101	89	-11.7	0	3	–	17	15	-14.1	20	7	-66.0	138	114	-17.6
Depletion	372	472	26.9	0	0	–	5	5	-11.7	68	54	-20.1	445	531	19.2
Write-Offs and Amortization	0	31	–	0	10	–	3	9	193.7	2	5	122.4	5	55	–
Non-Cash Charges and E&D	513	631	23.0	0	13	–	26	29	11.7	96	78	-19.3	635	751	18.2
Income before Taxes	45	1	-98.2	1	-21	–	24	31	28.5	45	54	20.3	115	64	-43.8
Federal Income Tax	0	15	–	0	0	-44.9	3	14	396.4	16	14	-14.7	19	43	120.5
Provincial Income Tax	-69	-65	–	0	0	-38.8	0	0	-44.5	2	0	-94.5	-67	-64	–
Current Income Tax	-69	-50	–	0	0	-43.1	3	14	357.7	19	14	-24.5	-47	-22	–
Income after Current Income Tax	114	50	-55.8	0	-22	–	21	17	-18.7	26	40	52.0	162	86	-46.9
Deferred Income Tax	37	13	-65.9	0	0	-16.1	8	2	-70.9	-1	-4	–	45	11	-76.2
Net Income after Taxes	77	38	-51.0	0	-22	–	13	15	16.6	27	44	63.2	117	75	-35.8
Extraordinary Items	5	6	30.9	0	0	–	0	-12	–	0	11	–	5	5	10.5
Net Income After Extraordinary Items	82	44	-46.1	0	-22	–	13	3	-78.3	27	55	103.1	122	81	-34.0
Internal Cash Flow	627	682	8.7	0	-9	–	47	46	-2.0	122	118	-4.0	797	837	5.0

B4

Income and Expense Statement – All Operations in millions of dollars
Senior Oil and Gas Producers
First six months

	Upstream			Downstream			Other Operations			Foreign Activities			Total Operations		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Total Revenues	4148	3946	-4.9	256	299	16.7	359	343	-4.6	257	388	51.3	5020	4977	-0.9
Royalties and other Payments	664	642	-3.3	0	0	-	0	0	-	0	0	-	664	642	-3.3
PGRT and other Taxes	0	0	-	0	0	-	3	3	9.7	13	16	25.2	16	19	22.1
Total Revenue after Royalties	3484	3305	-5.2	256	299	16.7	356	339	-4.7	244	373	52.6	4341	4316	-0.6
Cost of Goods Sold	0	0	-	89	119	34.3	0	29	-	51	98	91.6	140	246	75.7
Interest Expenses	506	379	-25.0	3	3	19.3	72	58	-18.9	9	7	-25.0	590	448	-24.1
Operating Costs	1346	1331	-1.1	88	88	-0.3	201	219	8.8	56	56	-	1692	1695	0.1
R&D Costs (Excluding Oil Sands)	19	7	-63.5	0	0	-	0	0	-	0	4	-	19	11	-41.7
Other Expenses	27	10	-63.4	0	0	-	19	8	-60.4	12	1	-91.5	58	18	-68.1
Oil Sands R&D Expensed	11	9	-21.7	0	0	-	0	0	-	0	0	-	11	9	-20.9
E&D Expensed	301	281	-6.8	0	0	-	11	10	-2.9	35	43	23.5	347	335	-3.6
Depreciation	258	301	16.7	25	29	13.0	52	37	-28.9	14	24	68.1	349	390	11.7
Depletion	494	465	-5.8	0	0	-	2	7	185.6	51	66	29.7	547	538	-1.7
Write-Offs and Amortization	116	198	70.9	-2	-1	-	-34	-3	-	-40	-1	-	41	192	370.8
Non-Cash Charges and E&D	1180	1253	6.2	24	28	16.5	31	51	61.8	60	132	118.3	1295	1463	13.0
Income before Taxes	407	325	-20.3	53	61	15.7	32	-26	-	56	75	34.6	548	435	-20.5
Federal Income Tax	148	58	-60.6	7	9	27.7	21	1	-93.5	16	31	91.0	192	99	-48.1
Provincial Income Tax	38	17	-54.4	3	4	32.7	10	0	-	2	0	-	54	21	-61.1
Current Income Tax	186	76	-59.3	11	14	29.3	31	1	-96.4	18	30	63.9	245	120	-50.9
Income after Current Income Tax	221	249	12.5	42	48	12.4	1	-27	-	38	45	20.2	302	315	4.1
Deferred Income Tax	58	73	24.9	0	-1	-	-5	2	-	-13	7	-	41	81	96.8
Net Income after Taxes	163	176	8.0	43	48	13.8	6	-29	-	50	39	-23.4	262	234	-10.4
Extraordinary Items	17	-22	-	0	0	-	5	16	253.8	0	-15	-	22	-21	-
Net Income After Extraordinary Items	180	154	-14.7	43	48	13.8	10	-12	-	50	23	-53.9	284	213	-24.9
Internal Cash Flow	1401	1502	7.2	66	75	13.8	33	24	-26.1	98	177	80.7	1598	1778	11.3

B5

Income and Expense Statement – All Operations in millions of dollars

Total Oil and Gas Producers

First six months

	Upstream			Downstream			Other Operations			Foreign Activities			Total Operations		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Total Revenues	5795	5675	-2.1	260	415	59.6	655	606	-7.4	529	626	18.3	7239	7322	1.1
Royalties and other Payments	952	943	-0.9	0	0	–	0	0	–	0	0	–	952	943	-0.9
PGRT and other Taxes	0	0	–	0	0	–	3	3	9.7	39	32	-18.7	42	35	-16.6
Total Revenue after Royalties	4844	4732	-2.3	260	415	59.6	652	603	-7.5	490	594	21.3	6245	6344	1.6
Cost of Goods Sold	0	0	–	89	203	129.8	17	29	68.9	51	98	91.6	157	330	110.7
Interest Expenses	756	596	-21.1	3	31	–	101	83	-17.9	11	5	-52.0	871	716	-17.9
Operating Costs	1848	1859	0.6	91	98	8.1	369	383	3.7	144	141	-2.4	2453	2480	1.1
R&D Costs (Excluding Oil Sands)	19	8	-59.9	0	2	–	0	0	–	1	4	–	19	13	-30.9
Other Expenses	75	60	-21.0	0	0	11.5	51	23	-55.1	26	8	-69.7	152	91	-40.5
Oil Sands R&D Expensed	11	9	-17.4	0	0	–	0	0	–	0	0	–	11	9	-16.7
E&D Expensed	342	320	-6.5	0	0	–	11	10	-2.9	41	55	32.8	394	385	-2.3
Depreciation	359	390	8.7	25	31	24.4	69	52	-25.2	34	30	-10.0	487	504	3.4
Depletion	866	937	8.2	0	0	–	8	11	50.9	119	120	1.2	992	1069	7.7
Write-Offs and Amortization	115	229	98.7	-2	9	–	-31	6	–	-37	3	–	46	247	–
Non-Cash Charges and E&D	1693	1885	11.3	24	41	70.6	57	80	39.3	156	209	33.7	1930	2214	14.7
Income before Taxes	452	325	-28.0	54	40	-25.8	56	5	-90.8	101	129	28.2	662	500	-24.6
Federal Income Tax	148	73	-50.4	7	9	25.1	23	15	-35.7	32	45	37.7	211	142	-32.6
Provincial Income Tax	-32	-47	–	3	4	30.3	11	0	–	5	0	–	-13	-43	–
Current Income Tax	116	26	-77.7	11	14	26.7	34	15	-55.9	37	44	19.4	198	99	-50.1
Income after Current Income Tax	336	299	-10.8	43	26	-39.2	22	-10	–	64	85	33.3	464	401	-13.7
Deferred Income Tax	95	86	-10.3	0	-1	–	4	4	8.6	-14	2	–	85	91	6.7
Net Income after Taxes	240	214	-11.0	43	27	-37.6	18	-14	–	78	83	7.0	379	310	-18.3
Extraordinary Items	22	-16	–	0	0	–	5	4	-6.8	0	-4	–	27	-16	–
Net Income After Extraordinary Items	262	198	-24.5	43	27	-37.6	23	-10	–	78	79	1.3	406	294	-27.6
Internal Cash Flow	2029	2184	7.7	67	67	–	79	70	-11.9	220	294	33.6	2395	2615	9.2

B6

Income and Expense Statement – All Operations in millions of dollars
Canadian-Controlled Companies
First six months

	Upstream			Downstream			Other Operations			Foreign Activities			Total Operations		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Total Revenues	3148	3273	4.0	4406	4621	4.9	998	908	-9.0	256	258	1.0	8807	9060	2.9
Royalties and other Payments	488	485	-0.7	0	0	–	0	0	–	0	0	–	488	485	-0.7
PGRT and other Taxes	0	0	–	616	684	11.0	5	5	11.3	1	0	-90.3	623	690	10.8
Total Revenue after Royalties	2659	2789	4.9	3790	3936	3.9	993	902	-9.1	254	258	1.5	7696	7885	2.5
Cost of Goods Sold	0	0	–	2724	2670	-2.0	457	482	5.7	0	0	–	3181	3153	-0.9
Interest Expenses	254	271	6.7	10	52	397.7	107	158	48.4	13	9	-33.2	383	489	27.6
Operating Costs	1067	1154	8.2	604	670	10.9	270	247	-8.5	92	71	-22.1	2033	2143	5.4
R&D Costs (Excluding Oil Sands)	2	2	-8.2	0	2	–	0	0	–	1	0	–	3	4	37.4
Other Expenses	28	20	-27.9	8	2	-79.0	58	31	-46.9	15	12	-23.4	109	64	-41.3
Oil Sands R&D Expensed	1	1	24.0	0	0	–	0	0	–	0	0	–	1	1	24.0
E&D Expensed	179	94	-47.3	0	0	–	7	6	-6.7	33	55	64.7	219	155	-28.9
Depreciation	223	267	19.4	149	159	6.7	35	28	-18.2	33	28	-15.9	440	482	9.4
Depletion	540	578	7.0	0	0	–	7	7	4.4	61	65	6.5	608	650	7.0
Write-Offs and Amortization	81	32	-60.1	5	16	199.2	-6	4	–	3	5	58.9	83	56	-32.3
Non-Cash Charges and E&D	1023	972	-5.0	154	174	13.2	42	46	8.2	131	153	16.8	1350	1345	-0.4
Income before Taxes	286	370	29.6	288	366	26.9	60	-61	–	3	13	341.9	637	688	8.0
Federal Income Tax	40	62	55.4	65	55	-15.3	10	-4	–	11	18	68.3	126	130	3.5
Provincial Income Tax	-44	-36	–	29	25	-11.7	5	-8	–	5	0	–	-6	-19	–
Current Income Tax	-4	26	–	94	80	-14.2	15	-12	–	15	17	13.9	120	112	-7.2
Income after Current Income Tax	290	345	18.9	194	285	46.8	45	-49	–	-12	-4	–	517	577	11.6
Deferred Income Tax	76	48	-36.7	22	67	206.8	-1	-15	–	-13	-11	–	84	89	5.8
Net Income after Taxes	214	297	38.4	173	219	26.6	46	-35	–	0	7	–	433	488	12.7
Extraordinary Items	4	5	46.5	2	0	-79.2	0	2	–	0	-9	–	6	0	–
Net Income After Extraordinary Items	218	302	38.6	175	219	25.3	46	-32	–	0	-1	–	439	488	11.1
Internal Cash Flow	1313	1316	0.2	348	460	31.9	87	-4	–	119	149	25.4	1867	1921	2.9

B7

Income and Expense Statement – All Operations in millions of dollars
Foreign-Controlled Companies
First six months

	Upstream			Downstream			Other Operations			Foreign Activities			Total Operations		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Total Revenues	5237	5286	0.9	8652	8832	2.1	405	420	3.7	397	486	22.5	14691	15025	2.3
Royalties and other Payments	890	890	–	0	0	–	0	0	–	0	0	–	890	890	–
PGRT and other Taxes	0	0	–	1352	1436	6.2	0	0	–	38	32	-16.4	1390	1468	5.6
Total Revenue after Royalties	4347	4396	1.1	7300	7397	1.3	405	420	3.7	359	454	26.6	12412	12667	2.1
Cost of Goods Sold	0	0	–	5154	5024	-2.5	-6	97	–	135	171	26.7	5283	5292	0.2
Interest Expenses	503	367	-27.0	30	49	62.8	159	310	95.5	-2	-3	–	690	723	4.9
Operating Costs	1785	1830	2.6	1191	1300	9.2	174	249	43.2	63	80	25.3	3213	3459	7.7
R&D Costs (Excluding Oil Sands)	28	19	-32.9	21	23	12.9	0	0	–	0	4	–	49	46	-4.7
Other Expenses	50	46	-8.7	-2	-1	–	25	8	-70.0	11	-2	–	84	51	-39.6
Oil Sands R&D Expensed	11	8	-21.8	0	0	–	0	0	–	0	0	–	11	8	-21.0
E&D Expensed	389	388	-0.2	0	0	–	15	11	-30.2	8	9	7.4	413	408	-1.2
Depreciation	311	320	2.8	219	229	4.8	67	68	0.9	1	3	152.8	598	620	3.6
Depletion	489	536	9.5	0	0	–	1	4	–	66	66	–	556	606	9.0
Write-Offs and Amortization	175	360	106.4	3	9	239.1	-31	-49	–	-40	0	–	106	320	201.2
Non-Cash Charges and E&D	1375	1613	17.3	221	238	7.5	52	34	-34.5	36	78	115.6	1684	1962	16.5
Income before Taxes	607	522	-14.1	685	763	11.4	1	-278	–	116	127	10.0	1410	1134	-19.5
Federal Income Tax	207	138	-33.3	180	190	5.5	-11	-68	–	26	30	15.8	401	290	-27.8
Provincial Income Tax	27	33	22.5	72	82	14.8	-3	-33	–	0	0	–	96	82	-14.3
Current Income Tax	234	171	-26.9	252	272	8.2	-14	-101	–	26	30	16.2	497	372	-25.2
Income after Current Income Tax	374	351	-6.2	433	491	13.3	15	-177	–	90	98	8.2	913	763	-16.4
Deferred Income Tax	122	118	-3.4	44	28	-36.8	-4	-39	–	3	16	368.3	166	123	-25.9
Net Income after Taxes	252	233	-7.5	389	463	18.9	19	-137	–	87	81	-6.3	747	640	-14.3
Extraordinary Items	-11	-21	–	24	1	-97.1	5	2	-59.9	0	4	–	17	-14	–
Net Income After Extraordinary Items	241	212	-11.9	413	464	12.3	24	-135	–	87	85	-1.4	764	626	-18.1
Internal Cash Flow	1749	1963	12.3	654	729	11.3	67	-143	–	126	175	38.9	2596	2725	4.9

B8

Financial Performance for Main Business Segments

Upstream Operations

First six months

	Total Industry			Canadian Controlled			Foreign Controlled		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Production of Oil Equivalent[1] in thousands of cubic metres	91334	93675	2.6	34880	36224	3.9	56453	57451	1.8
Key Financial Items in millions of dollars			%			%			%
Sales before Royalties and Taxes	7895	8138	3.1	2899	3041	4.9	4996	5097	2.0
Other Revenues	490	422	-13.9	249	233	-6.4	241	189	-21.7
Gross Revenue	8385	8560	2.1	3148	3273	4.0	5237	5286	0.9
Cash Income	3062	3280	7.1	1313	1316	0.2	1749	1963	12.3
Net Income	466	530	13.6	214	297	38.4	252	233	-7.5
Net Income plus Interest	1222	1167	-4.5	468	567	21.2	754	600	-20.5
Capital Employed	49412	53019	7.3	21537	23520	9.2	27875	29499	5.8
Unit Revenues and Costs in dollars per cubic metre			%			%			%
Sales before Royalties and Taxes	86.44	86.87	0.5	83.11	83.94	1.0	88.50	88.72	0.3
Other Revenues	5.37	4.51	-16.1	7.13	6.43	-9.9	4.28	3.29	-23.0
Gross Revenue	91.81	91.38	-0.5	90.24	90.37	0.1	92.77	92.01	-0.8
Royalties & other Payments	15.09	14.68	-2.7	14.00	13.38	-4.4	15.76	15.50	-1.7
Revenues after Royalties & Taxes	76.72	76.70	-	76.24	76.98	1.0	77.01	76.52	-0.6
Interest Expenses	8.28	6.81	-17.8	7.27	7.47	2.7	8.90	6.39	-28.2
Operating Costs (excluding Research)	31.22	31.86	2.0	30.59	31.86	4.2	31.61	31.86	0.8
Research & other Expenses	1.18	0.92	-21.9	0.85	0.60	-29.3	1.38	1.12	-18.8
Cash Income before Taxes	36.04	37.11	3.0	37.53	37.05	-1.3	35.11	37.15	5.8
E&D & Oil Sands R&D Expensed	6.34	5.25	-17.2	5.14	2.63	-48.9	7.08	6.90	-2.5
Depreciation	5.85	6.26	7.0	6.40	7.36	15.0	5.52	5.57	1.1
Depletion	11.26	11.88	5.5	15.47	15.94	3.1	8.67	9.32	7.6
Write-offs	2.80	4.19	49.8	2.32	0.89	-61.6	3.09	6.27	102.8
Net Income Before Taxes	9.78	9.52	-2.6	8.20	10.22	24.8	10.76	9.08	-15.6
Federal Income Tax	2.70	2.13	-21.1	1.14	1.70	49.6	3.66	2.40	-34.5
Provincial Income Tax	-0.18	-0.03	-	-1.25	-0.99	-	0.48	0.57	20.3
Deferred Income Tax	2.16	1.77	-18.2	2.17	1.32	-39.0	2.16	2.05	-5.1
Net Income after Taxes	5.10	5.65	10.8	6.14	8.19	33.3	4.46	4.05	-9.1
Extraordinary Items	-0.08	-0.17	-	0.10	0.15	41.0	-0.20	-0.37	-
Net Income after Extraordinary Items	5.02	5.49	9.3	6.25	8.34	33.4	4.26	3.69	-13.4
Internal Cash Flow	33.52	35.01	4.4	37.64	36.33	-3.5	30.98	34.18	10.3
Ratios in percent									
Natural Gas as a percent of Total Production	44.3	46.0	N/A	51.2	52.4	N/A	40.1	42.0	N/A
Oil Subject to Old Oil Royalty as a percent of Conventional Oil Production	46.4	44.5	N/A	41.7	39.2	N/A	49.0	47.5	N/A

(1) Does not include sulphur.

B8(continued)

Financial Performance for Main Business Segments

Upstream Operations

First six months

	Integrateds/Refiners			Junior O&G Producers			Senior O&G Producers		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Production of Oil Equivalent(1) in thousands of cubic metres	28007	30351	8.4	19804	21271	7.4	43523	42053	-3.4
Key Financial Items in millions of dollars			%			%			%
Sales before Royalties and Taxes	2545	2839	11.5	1507	1615	7.1	3843	3684	-4.1
Other Revenues	45	46	2.3	140	114	-18.4	305	262	-14.2
Gross Revenue	2590	2885	11.4	1647	1729	5.0	4148	3946	-4.9
Cash Income	1033	1095	6.0	627	682	8.7	1401	1502	7.2
Net Income	226	316	39.7	77	38	-51.0	163	176	8.0
Net Income plus Interest	226	357	57.9	327	255	-22.1	669	555	-17.0
Capital Employed	11845	15019	26.8	14517	15147	4.3	23050	22853	-0.9
Unit Revenues and Costs in dollars per cubic metre			%			%			%
Sales before Royalties and Taxes	90.86	93.53	2.9	76.12	75.91	-0.3	88.29	87.61	-0.8
Other Revenues	1.61	1.52	-5.6	7.06	5.36	-24.0	7.02	6.23	-11.2
Gross Revenue	92.47	95.04	2.8	83.18	81.27	-2.3	95.31	93.84	-1.5
Royalties & other Payments	15.23	14.24	-6.5	14.54	14.16	-2.6	15.25	15.26	0.1
Revenues after Royalties & Taxes	77.23	80.80	4.6	68.64	67.12	-2.2	80.06	78.59	-1.8
Interest Expenses	0	1.35	-	12.63	10.21	-19.2	11.62	9.02	-22.4
Operating Costs (excluding Research)	35.82	37.10	3.6	25.37	24.81	-2.2	30.92	31.65	2.3
Research & other Expenses	0.48	0.63	31.2	2.45	2.37	-3.1	1.05	0.40	-62.2
Cash Income before Taxes	40.93	41.72	1.9	28.18	29.72	5.5	36.46	37.52	2.9
E&D & Oil Sands R&D Expensed	8.07	5.37	-33.5	2.06	1.84	-10.7	7.18	6.89	-4.0
Depreciation	6.28	6.49	3.3	5.10	4.19	-17.8	5.92	7.15	20.7
Depletion	5.82	5.81	-0.2	18.77	22.17	18.1	11.35	11.06	-2.5
Write-offs	5.00	5.38	7.6	-0.02	1.48	-	2.66	4.70	76.9
Net Income Before Taxes	15.76	18.67	18.5	2.26	0.04	-98.4	[illegible]	7.72	-17.5
Federal Income Tax	3.52	4.16	18.2	0	0.71	-	[illegible]	1.39	-59.2
Provincial Income Tax	0.53	1.47	177.9	-3.50	-3.04	-	0.87	0.41	-52.8
Deferred Income Tax	3.64	2.64	-27.6	1.87	0.59	-68.3	1.34	1.74	29.2
Net Income after Taxes	8.07	10.41	28.9	3.90	1.78	-54.4	3.74	4.19	11.8
Extraordinary Items	-1.07	0	-	0.25	0.30	21.9	0.40	-0.53	-
Net Income after Extraordinary Items	7.00	10.41	48.7	4.14	2.08	-49.8	4.15	3.66	-11.7
Internal Cash Flow	36.89	36.09	-2.2	31.68	32.06	1.2	32.19	35.72	11.0
Ratios in percent									
Natural Gas as a percent of Total Production	31.9	35.9	N/A	60.7	63.5	N/A	44.9	44.5	N/A
Oil Subject of Old Oil Royalty as a percent of Conventional Oil Production	49.2	49.6	N/A	36.5	30.6	N/A	48.8	47.3	N/A

(1) Does not include sulphur.

B9

Financial Performance for Main Business Segments

Downstream Operations

First six months

	Total Downstream			Total Oil Products			Petrochemicals and Other		
	1988	1989	Change	1988	1989	Change	1988	1989	Change
Key Financial Items in millions of dollars			%			%			%
Revenue before Sales, Excise & other Taxes	12738	13100	2.8	10928	11244	2.9	1810	1856	2.5
Other Revenues	320	353	10.4	301	341	13.5	19	12	-38.5
Total Revenue	13058	13453	3.0	11228	11586	3.2	1829	1868	2.1
Sales, Excise & other Taxes	1968	2120	7.7	1968	2120	7.7	0	0	19.7
Cost of Goods Sold	7878	7694	-2.3	6800	6623	-2.6	1078	1071	-0.6
Operating Costs	1795	1970	9.7	1582	1745	10.3	213	226	6.0
R&D Costs (excluding Oil Sands)	21	25	21.5	14	15	3.6	7	11	58.8
Other Expenses	7	1	-81.8	6	0	–	1	2	75.8
Cash Income before Interest and Taxes	1389	1642	18.2	858	1084	26.3	531	558	5.1
Interest Expenses	40	101	149.3	37	65	77.0	4	36	–
Cash Income before Taxes	1348	1541	14.3	821	1019	24.0	527	522	-0.9
Current Income Tax	346	353	2.1	191	227	19.0	155	125	-18.9
Internal Cash Flow	1003	1188	18.5	630	791	25.5	372	397	6.5
Depreciation & other Non-cash Charges	375	412	9.8	281	302	7.4	94	110	17.1
Income after Current Income Tax	628	776	23.6	349	489	40.1	279	287	3.0
Deferred Income Tax	66	95	43.9	51	71	39.4	15	23	59.5
Net Income after Taxes	562	682	21.3	298	418	40.2	264	264	-0.1
Extraordinary Items	26	1	-95.7	26	1	-95.7	0	0	–
Net Income after Extraordinary Items	588	683	16.2	324	419	29.4	264	264	-0.1

	Total Oil Products			National Refiners-Marketers			Regional Refiners-Marketers		
	1988	1989	Change	1988	1989	Change	1988	1989	Change
Unit Revenues and Costs in dollars per cubic metre			%			%			%
Revenue before Sales, Excise & other Taxes	272.61	265.45	-2.6	278.42	271.59	-2.5	259.13	251.57	-2.9
Other Revenues	7.50	8.05	7.4	8.27	8.79	6.4	5.72	6.38	11.6
Total Revenue	280.11	273.50	-2.4	286.69	280.38	-2.2	264.85	257.95	-2.6
Sales, Excise & other Taxes	49.09	50.04	1.9	51.88	52.99	2.1	42.62	43.38	1.8
Cost of Goods Sold	169.64	156.35	-7.8	170.24	157.22	-7.7	168.25	154.39	-8.2
Operating Costs	39.48	41.19	4.3	44.01	46.26	5.1	28.96	29.71	2.6
R&D Costs (excluding Oil Sands)	0.35	0.34	-2.0	0.45	0.45	-0.3	0.12	0.10	-11.7
Other Expenses	0.14	-0.01	0	-0.10	-0.07	–	0.70	0.14	-80.6
Cash Income before Interest and Taxes	21.41	25.59	19.5	20.21	23.53	16.5	24.20	30.24	24.9
Interest Expenses	0.92	1.54	67.5	0.01	0.01	-7.5	3.03	5.00	65.0
Cash Income before Taxes	20.49	24.05	17.4	20.20	23.53	16.5	21.17	25.23	19.2
Current Income Tax	4.77	5.37	12.6	5.07	6.42	26.8	4.07	2.98	-26.7
Internal Cash Flow	15.73	18.68	18.8	15.14	17.11	13.0	17.10	22.25	30.1
Depreciation & other Non-cash Charges	7.01	7.13	1.6	6.74	6.80	0.9	7.66	7.88	2.9
Income after Current Income Tax	8.71	11.55	32.6	8.40	10.31	22.8	9.45	14.37	52.1
Deferred Income Tax	1.28	1.68	31.9	0.79	0.63	-20.8	2.39	4.07	70.1
Net Income after Taxes	7.44	9.87	32.7	7.60	9.68	27.3	7.06	10.30	46.0
Extraordinary Items	0.64	0.03	-95.9	0	0	–	2.13	0.09	-96.0
Net Income after Extraordinary Items	8.08	9.90	22.5	7.60	9.68	27.3	9.19	10.39	13.1
Ratios in percent			Change			Change			Change
'Clean Products' Sales as a percent of Total Sales Volume	82.36	81.75	-0.7	82.81	82.21	-0.7	81.34	80.70	-0.8
Net Sales in Canada as a percent of Total Sales Volume	93.46	92.90	-2.5	94.58	94.07	-3.3	90.87	90.25	-0.7
Export Sales as a percent of Total Sales Volume	6.36	5.82	-8.6	5.68	4.83	-14.9	7.94	8.04	1.2

(1) The calculation of unit costs and revenues is based on total sales volume data for the aggregates mentioned.

B10

Sources and Uses of Funds in millions of dollars
First six months

	Total Industry			Canadian Controlled			Foreign Controlled		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Cash Generated by Operations	4464	4646	4.1	1867	1921	2.9	2596	2725	4.9
Net Increase in Long-term Debt	935	4557	387.3	299	1706	–	636	2851	348.3
Issue of Shares	1139	2004	75.9	481	644	33.8	658	1360	106.6
Incentive Grants	241	133	-44.8	134	81	-39.5	106	52	-51.5
All Other Sources	2343	1526	-34.9	979	672	-31.3	1364	854	-37.4
Working Capital Decrease	2503	1805	-27.9	2090	315	-84.9	413	1490	260.3
Total Sources of Funds	11625	14671	26.2	5851	5340	-8.7	5774	9331	61.6
Total Capital Expenditures in Canada	4175	3294	-21.1	1927	1438	-25.4	2249	1856	-17.5
Capital Expenditure in U.S.A.	63	51	-18.1	50	42	-15.1	13	9	-29.5
Other Foreign Capital Expenditures	183	196	7.1	111	140	25.4	72	57	-21.2
Total Foreign Capital Expenditures	246	248	0.7	161	182	12.9	85	66	-22.5
Total Company Capital Expenditures	4421	3542	-19.9	2088	1620	-22.4	2334	1922	-17.6
Dividends:									
Common Shares	571	624	9.4	153	186	21.4	418	438	5.0
Preferred Shares	116	172	48.0	93	147	57.8	23	25	8.5
Total	687	796	15.9	246	333	35.2	441	464	5.2
Reduction of Equity	1087	562	-48.3	917	525	-42.8	169	37	-78.0
Total Dividend & Equity Reduction	1774	1358	-23.4	1163	857	-26.3	610	501	-17.9
Net Decrease in Long-term Debt	1801	935	-48.1	1047	321	-69.4	754	615	-18.5
All Other Applications	2362	7115	201.3	1255	1274	1.5	1107	5841	–
Working Capital Increase	1267	1721	35.8	297	1268	326.5	970	453	-53.3
Total Applications of Funds	11625	14671	26.2	5851	5340	-8.7	5774	9331	61.6

	Integrateds/Refiners			Junior O&G Producers			Senior O&G Producers		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Cash Generated by Operations	2069	2031	-1.8	797	837	5.0	1598	1778	11.3
Net Increase in Long-term Debt	192	2964	–	323	501	54.9	420	1092	160.2
Issue of Shares	18	1288	–	983	564	-42.6	138	151	9.5
Incentive Grants	57	27	-52.6	110	71	-35.4	74	35	-52.9
All Other Sources	222	386	73.5	1145	515	-55.0	975	625	-35.9
Working Capital Decrease	1074	1468	36.7	409	262	-36.1	1020	75	-92.6
Total Sources of Funds	3632	8164	124.8	3768	2750	-27.0	4225	3757	-11.1
Total Capital Expenditures in Canada	1376	1262	-8.3	1227	890	-27.5	1573	1143	-27.3
Capital Expenditure in U.S.A.	0	0	–	5	4	-18.3	58	47	-18.7
Other Foreign Capital Expenditures	14	25	74.8	107	78	-27.1	62	94	50.9
Total Foreign Capital Expenditures	14	25	77.4	112	82	-26.7	120	141	17.3
Total Company Capital Expenditures	1390	1287	-7.4	1339	972	-27.4	1693	1284	-24.2
Dividends:									
Common Shares	314	453	44.0	22	30	36.6	234	141	-39.7
Preferred Shares	23	67	183.4	46	46	0.2	46	59	27.1
Total	338	519	53.7	68	77	11.9	280	200	-28.6
Reduction of Equity	1032	314	-69.6	41	38	-5.7	14	210	–
Total Dividend & Equity Reduction	1370	833	-39.2	109	115	5.4	295	410	39.1
Net Decrease in Long-term Debt	114	156	36.9	893	334	-62.6	795	446	-43.9
All Other Applications	374	5394	–	957	905	-5.3	1031	816	-20.9
Working Capital Increase	384	495	28.6	471	424	-10.1	412	802	94.9
Total Applications of Funds	3632	8164	124.8	3768	2750	-27.0	4225	3757	-11.1

B11

Upstream Canadian Capital Expenditures by Location in millions of dollars
First six months

	Total Canadian			Provinces			Canada Lands		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Total Industry									
Land & Lease, Geological & Geophysical	792	721	-9.0	756	650	-14.0	36	70	97.2
Exploration Drilling	865	591	-31.7	620	478	-22.9	245	113	-53.9
Total Exploration	1657	1312	-20.9	1377	1128	-18.0	281	183	-34.7
Development Drilling	632	384	-39.2	625	384	-38.6	7	0	-98.2
Production	762	798	4.7	758	779	2.8	4	19	339.1
Non-conventional Heavy Oil & Oil Sands	432	160	-62.9	432	160	-62.9	0	0	-
Total Upstream	3484	2654	-23.8	3192	2451	-23.2	292	202	-30.7
Canadian- Controlled Companies									
Land & Lease, Geological & Geophysical	367	328	-10.6	366	324	-11.5	1	4	248.2
Exploration Drilling	491	286	-41.8	346	244	-29.7	145	42	-70.9
Total Exploration	858	614	-28.5	712	567	-20.3	146	46	-68.2
Development Drilling	279	201	-27.8	279	201	-27.8	0	0	-
Production	300	302	0.8	299	289	-3.3	0	12	-
Non-conventional Heavy Oil & Oil Sands	115	61	-47.2	115	61	-47.2	0	0	-
Total Upstream	1551	1177	-24.1	1405	1118	-20.4	146	59	-59.7
Foreign- Controlled Companies									
Land & Lease, Geological & Geophysical	425	393	-7.6	391	327	-16.4	34	66	91.7
Exploration Drilling	374	305	-18.4	274	234	-14.4	100	71	-29.3
Total Exploration	799	698	-12.7	665	561	-15.6	135	137	1.7
Development Drilling	353	183	-48.3	346	183	-47.3	7	0	-98.2
Production	463	496	7.2	459	490	6.7	4	6	56.6
Non-conventional Heavy Oil & Oil Sands	317	99	-68.7	317	99	-68.7	0	0	-
Total Upstream	1933	1476	-23.6	1787	1333	-25.4	146	143	-1.6

B12

Capital Expenditures by Activity in millions of dollars
First six months

	Total Industry			Canadian Controlled			Foreign Controlled		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Exploration	1657	1312	-20.9	858	614	-28.5	799	698	-12.7
Development	632	384	-39.2	279	201	-27.8	353	183	-48.3
Production	762	798	4.7	300	302	0.8	463	496	7.2
Oil Sands	432	160	-62.9	115	61	-47.2	317	99	-68.7
Total Upstream	3484	2654	-23.8	1551	1177	-24.1	1933	1477	-23.6
Total Downstream	523	428	-18.2	315	159	-49.4	208	268	29.1
Uranium	0	0	-	0	0	-	0	0	-
Coal	7	5	-31.0	2	1	-66.3	5	4	-15.1
All Others	161	207	28.5	58	101	73.2	103	107	3.4
Total Capital Expenditures in Canada	4175	3294	-21.1	1927	1438	-25.4	2249	1856	-17.5
Total Capital Expenditures Abroad	246	248	0.7	161	182	12.9	85	66	-22.5
Total Company Capital Expenditures	4421	3542	-19.9	2088	1620	-22.4	2334	1922	-17.6
	Integrateds & Refiners			Junior O&G Producers			Senior O&G Producers		
Exploration	371	345	-7.1	578	463	-19.9	708	504	-28.9
Development	153	70	-54.3	236	168	-28.9	243	146	-39.9
Production	204	266	30.5	205	205	-0.2	353	327	-7.5
Oil Sands	273	109	-60.0	2	5	200.9	158	46	-70.8
Total Upstream	1001	790	-21.0	1021	841	-17.7	1462	1023	-30.0
Total Downstream	325	404	24.2	168	4	-97.6	30	20	-32.1
Uranium	0	0	-	0	0	-	0	0	-
Coal	5	2	-54.4	0	0	-	2	3	16.8
All Others	45	65	44.6	38	45	19.5	79	97	23.5
Total Capital Expenditures in Canada	1376	1262	-8.3	1227	890	-27.5	1573	1143	-27.3
Total Capital Expenditures Abroad	14	25	77.4	112	82	-26.7	120	141	17.3
Total Company Capital Expenditures	1390	1287	-7.4	1339	972	-27.4	1693	1284	-24.2

B13

Balance Sheet in millions of dollars

	Total Industry			Canadian Controlled			Foreign Controlled		
	Dec. 31 1988	June 30 1989	Change %	Dec. 31 1988	June 30 1989	Change %	Dec. 31 1988	June 30 1989	Change %
Cash, Investments & Marketable Securities	3635	2154	-40.7	1270	1225	-3.5	2365	929	-60.7
Accounts Receivable:									
Affiliate	674	602	-10.7	349	219	-37.3	325	383	17.8
All Other	6055	6103	0.8	2284	2540	11.2	3771	3563	-5.5
Total	6729	6705	-0.4	2632	2758	4.8	4096	3946	-3.7
Inventories	3479	4315	24.0	1224	1551	26.7	2255	2764	22.6
Other Current Assets	910	988	8.6	400	433	8.2	510	556	8.9
Total Current Assets	14752	14162	-4.0	5525	5967	8.0	9227	8195	-11.2
Property Plant & Equipment	94510	98032	3.7	41681	44272	6.2	52829	53760	1.8
less:									
Accumulated Depletion Depreciation and Amortization	29002	31860	9.9	13393	15114	12.8	15609	16746	7.3
Net Fixed Assets	65508	66172	1.0	28288	29158	3.1	37220	37014	-0.6
Other Long-term Assets	6059	11066	82.6	3235	3255	0.6	2824	7811	176.6
Total Assets	86320	91400	5.9	37048	38380	3.6	49271	53020	7.6
Accounts Payable:									
Affiliate	613	694	13.2	98	74	-24.6	514	620	20.4
All Other	5577	5788	3.8	2380	2463	3.5	3198	3325	4.0
Total	6190	6482	4.7	2478	2537	2.4	3712	3945	6.3
Current Portion of Long-term Debt	826	552	-33.2	321	235	-26.8	506	317	-37.2
Other Current Liabilities	4680	4230	-9.6	2279	1868	-18.0	2402	2362	-1.6
Total Current Liabilities	11696	11264	-3.7	5077	4640	-8.6	6619	6625	0.1
Long-term Debt	17888	21480	20.1	7169	8531	19.0	10719	12949	20.8
Prepayment for Deferred Production	1370	1199	-12.5	595	548	-8.0	775	652	-15.9
Accumulated Deferred Income Taxes	11165	11393	2.0	4631	4750	2.6	6534	6643	1.7
Other Long-term Liabilities	3613	3714	2.4	705	713	1.2	2908	3001	2.7
Equity:									
Common Shares	15027	16280	8.3	10026	9880	-1.5	5000	6400	28.0
Preferred Shares	5199	4918	-5.4	3988	3778	-5.3	1211	1140	-5.9
Retained Earning	16620	17427	4.9	3052	3649	19.6	13568	13778	1.5
Other Equity	3741	3724	-0.5	1804	1891	4.8	1937	1833	-5.4
Total Equity	40588	42349	4.3	18871	19197	1.7	21717	23152	6.6
Total Liability, Deferred Taxes & Equity	86320	91400	5.9	37048	38380	3.6	49271	53020	7.6
Working Capital	3056	2897	-5.2	448	1328	196.1	2608	1570	-39.8

	Integrateds & Refiners			Junior O&G Producers			Senior O&G Producers		
Cash, Investments & Marketable Securities	2033	441	-78.3	974	994	2.1	627	719	14.7
Accounts Receivable:									
Affiliate	329	207	-37.1	182	155	-15.0	163	240	47.7
All Other	3636	3588	-1.3	860	889	3.3	1559	1626	4.3
Total	3965	3795	-4.3	1042	1043	0.1	1722	1866	8.4
Inventories	2872	3685	28.3	129	135	4.5	479	495	3.5
Other Current Assets	670	711	6.1	71	73	2.9	168	204	21.2
Total Current Assets	9541	8632	-9.5	2216	2245	1.3	2996	3285	9.7
Property Plant & Equipment	38939	39738	2.1	22144	23560	6.4	33427	34734	3.9
less:									
Accumulated Depletion Depreciation and Amortization	13221	14047	6.2	6976	7859	12.6	8805	9954	13.0
Net Fixed Assets	25718	25691	-0.1	15168	15701	3.5	24622	24780	0.6
Other Long-term Assets	2392	7594	217.5	1030	1171	13.8	2638	2301	-12.8
Total Assets	37651	41917	11.3	18413	19117	3.8	30255	30365	0.4
Accounts Payable:									
Affiliate	475	558	17.4	97	64	-33.4	41	71	75.3
All Other	3051	3288	7.8	815	792	-2.8	1712	1709	-0.1
Total	3526	3846	9.1	911	856	-6.1	1752	1780	1.6
Current Portion of Long-term Debt	253	72	-71.6	259	200	-22.9	314	280	-10.6
Other Current Liabilities	3039	2965	-2.4	194	180	-7.2	1448	1086	-25.0
Total Current Liabilities	6818	6882	0.9	1364	1236	-9.4	3514	3147	-10.5
Long-term Debt	4885	7687	57.4	4623	4831	4.5	8380	8963	7.0
Prepayment for Deferred Production	313	253	-19.4	396	365	-7.8	661	582	-12.0
Accumulated Deferred Income Taxes	5795	5948	2.6	1598	1595	-0.2	3771	3850	2.1
Other Long-term Liabilities	932	960	3.0	1246	1321	5.0	1435	1433	-0.2
Equity:									
Common Shares	5833	7131	22.3	5034	5569	10.6	4160	3581	-13.9
Preferred Shares	1696	1422	-16.1	2120	2017	-4.9	1384	1479	6.9
Retained Earning	10991	11244	2.3	481	643	33.6	5148	5540	7.6
Other Equity	388	390	0.5	1552	1542	-0.6	1902	1791	-0.6
Total Equity	18907	20187	6.8	9187	9771	6.4	12494	12391	-0.8
Total Liability, Deferred Taxes & Equity	37651	41917	11.3	18413	19117	3.7	30255	30365	0.4
Working Capital	2723	1750	-35.7	852	1010	18.6	-519	138	-

B14

Capital Employed by Sector and Segment in millions of dollars
First six months

	Total Industry			Canadian Controlled			Foreign Controlled		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Upstream	49412	53019	7.3	21537	23520	9.2	27875	29499	5.8
Refining and Marketing	11687	12166	4.1	4816	4995	3.7	6872	7172	4.4
Other Downstream	3361	3179	-5.4	1552	1488	-4.1	1809	1690	-6.6
Other Canadian Operations	5685	5140	-9.6	1893	2284	20.6	3792	2856	-24.7
Total Canadian Operations	70145	73504	4.8	29797	32287	8.4	40348	41217	2.2
Foreign Operations	3363	2806	-16.6	1820	1453	-20.2	1543	1353	-12.3
Grand Total	73508	76310	3.8	31617	33740	6.7	41891	42570	1.6

	Integrateds/Refiners			Junior O&G Producers			Senior O&G Producers		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Upstream	11845	15019	26.8	14517	15147	4.3	23050	22853	-0.9
Refining and Marketing	11225	11496	2.4	377	670	77.7	85	1	-98.7
Other Downstream	2466	2364	-4.2	2	114	-	892	701	-21.5
Other Canadian Operations	2521	2083	-17.4	1134	993	-12.4	2031	2064	1.6
Total Canadian Operations	28057	30962	10.4	16030	16923	5.6	26058	25619	-1.7
Foreign Operations	397	248	-37.5	1060	959	-9.6	1906	1600	-16.1
Grand Total	28454	31210	9.7	17090	17882	4.6	27964	27219	-2.7

Note:
Capital employed is defined as total assets less current liabilities.

B15

Volume and Value of Production

First six months

By Province

Volume in thousands of cubic metres	Alberta 1988	Alberta 1989	Alberta Change %	British Columbia 1988	British Columbia 1989	British Columbia Change %	Saskatchewan 1988	Saskatchewan 1989	Saskatchewan Change %
Conventional Crude - NORP	13694.4	13536.4	-1.2	460.2	451.6	-1.9	3074.1	2912.3	-5.3
Conventional Crude - Other	13195.6	12350.4	-6.4	482.6	405.9	-15.9	1940.8	1568.2	-19.2
Conventional Crude Oil	26890.0	25886.8	-3.7	942.8	857.5	-9.0	5014.9	4480.5	-10.7
Oil Sands	8559.4	9263.2	8.2	0	0	-	5.2	0	-
Marketable Natural Gas (10^6m^3)	36358.3	37507.2	3.2	3978.5	4825.3	21.3	1361.0	2070.3	52.1
Gas Plant Liquids	10185.8	11443.7	12.3	206.0	202.5	-1.7	90.3	11.7	-87.0
Total (including sulphur)	79460.0	80515.6	1.3	4950.1	5679	14.7	6402.8	6487.7	1.3
Value in millions of dollars			%			%			%
Conventional Crude - NORP	1556.1	1675.5	7.5	55.3	58.1	5.2	297.8	298.6	0.3
Conventional Crude - Other	1536.0	1568.9	2.1	57.1	51.1	-10.5	173.2	160.3	-7.4
Conventional Crude Oil	3094.0	3244.4	4.9	112.4	109.3	-2.8	471.0	459.0	-2.6
Oil Sands	850.6	1035.0	21.7	0	0	-	0	0	-
Marketable Natural Gas	2033.7	2075.1	2.0	210.8	241.2	14.4	74.6	100.2	34.4
Gas Plant Liquids	848.2	816.7	-3.7	11.3	11.2	-0.5	7.6	0.6	-91.7
Total (including sulphur)	6826.5	7171.3	5.1	334.5	361.7	8.1	553.2	559.8	1.2

By Company Group

Volume in thousands of cubic metres	Total Industry 1988	Total Industry 1989	Total Industry Change %	Canadian Controlled 1988	Canadian Controlled 1989	Canadian Controlled Change %	Foreign Controlled 1988	Foreign Controlled 1989	Foreign Controlled Change %
Conventional Crude - NORP	18193.4	18018.8	-1.0	6945.1	7111.2	2.4	11248.3	10907.6	-3.0
Conventional Crude - Other	15775.0	14473.5	-8.3	4961.2	4590.2	-7.5	10813.8	9883.3	-8.6
Conventional Crude Oil	33968.4	32492.3	-4.3	11906.3	11701.4	-1.7	22062.1	20790.9	-5.8
Oil Sands	8564.6	9263.2	8.2	2415.0	2859.0	18.4	6149.6	6404.2	4.1
Marketable Natural Gas (10^6m^3)	41862.4	44579.9	6.5	18475.2	19628.7	6.2	23387.2	24951.2	6.7
Gas Plant Liquids	10486.3	11661.9	11.2	3540.5	3584.9	1.3	6945.8	8077.0	16.3
Total (including sulphur)	92104.8	94132.0	2.2	35002.6	36319.4	3.8	57102.2	57812.5	1.2
Value in millions of dollars			%			%			%
Conventional Crude - NORP	1990.1	2135.2	7.3	765.2	827.0	8.1	1225.0	1308.2	6.8
Conventional Crude - Other	1786.7	1799.1	0.7	547.5	559.0	2.1	1239.3	1240.0	0.1
Conventional Crude Oil	3776.9	3934.3	4.2	1312.6	1386.0	5.6	2464.2	2548.3	3.4
Oil Sands	850.6	1035.0	21.7	291.5	378.4	29.8	559.0	656.6	17.5
Marketable Natural Gas	2329.9	2430.3	4.3	1003.1	1053.4	5.0	1326.8	1376.9	3.8
Gas Plant Liquids	867.5	828.9	-4.4	295.6	235.6	-20.3	571.9	593.4	3.8
Total (including sulphur)	7824.9	8228.5	5.2	2902.9	3053.4	5.2	4921.9	5175.1	5.1

Volume in thousands of cubic metres	Integrateds/Refiners 1988	Integrateds/Refiners 1989	Integrateds/Refiners Change %	Junior O&G Producers 1988	Junior O&G Producers 1989	Junior O&G Producers Change %	Senior O&G Producers 1988	Senior O&G Producers 1989	Senior O&G Producers Change %
Conventional Crude - NORP	5401.3	5355.5	-0.8	4378.1	4776.0	9.1	8414.0	7887.3	-6.3
Conventional Crude - Other	5238.9	5276.9	0.7	2512.7	2108.9	-16.1	8023.4	7087.7	-11.7
Conventional Crude Oil	10640.2	10632.4	-0.1	6890.8	6884.9	-0.1	16437.4	14975.0	-8.9
Oil Sands	5876.7	6247.6	6.3	103.3	142.6	38.0	2584.6	2873.0	11.2
Marketable Natural Gas (10^6m^3)	9226.0	11253.1	22.0	12427.8	13967.5	12.4	20208.6	19359.3	-4.2
Gas Plant Liquids	3261.5	3299.7	1.2	1028.2	992.7	-3.5	6196.6	7369.5	18.9
Total (including sulphur)	28249.2	30585.6	8.3	19822.9	21294.1	7.4	44032.8	42252.3	-4.0
Value in millions of dollars			%			%			%
Conventional Crude - NORP	578.4	624.3	7.9	470.3	547.1	16.3	941.4	963.9	2.4
Conventional Crude - Other	596.2	664.5	11.5	265.5	244.3	-8.0	925.1	890.3	-3.8
Conventional Crude Oil	1174.6	1288.7	9.7	735.8	791.4	7.6	1866.5	1854.2	-0.7
Oil Sands	533.0	665.8	24.9	10.5	13.7	30.7	307.0	355.5	15.8
Marketable Natural Gas	542.1	616.3	13.7	640.1	734.2	14.7	1147.7	1079.7	-5.9
Gas Plant Liquids	257.6	239.4	-7.1	105.8	59.7	-43.6	504.0	529.8	5.1
Total (including sulphur)	2507.4	2810.3	12.1	1492.2	1599.0	7.2	3825.2	3819.2	-0.2

B16

Upstream Operating Costs and Royalties in millions of dollars
First six months
By Province

	Alberta			British Columbia			Saskatchewan		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Field, Well & Gathering Operations	978.5	1112.3	13.7	50.7	64.9	27.9	154.0	143.3	-7.0
Natural Gas Processing Plants	249.8	219.0	-12.3	3.4	6.7	100.2	7.5	6.3	-17.1
Oil Sands	639.7	671.8	5.0	0	0	-	0	0	-
Taxes (excluding Income Taxes)	36.7	53.5	45.8	0.4	0.9	138.6	4.6	5.4	18.9
Operating Overhead	620.4	592.7	-4.5	17.6	19.1	8.9	60.5	51.8	-14.4
Total Operating Cost	2525.2	2649.3	4.9	72.0	91.7	27.3	226.7	206.8	-8.8
Federal Crown Royalties	0.2	0.3	42.8	0	0	-	0.2	0.1	-62.4
Provincial Royalties & Taxes	990.2	1008.4	1.8	51.0	52.3	2.5	93.6	85.7	-8.4
Non-Crown Royalties & Other	192.4	181.1	-5.9	10.3	10.2	-0.9	26.5	26.2	-1.3
Total Royalties	1182.7	1189.8	0.6	61.3	62.5	2.0	120.3	111.9	-6.9

By Company Group

	Total Industry			Canadian Controlled			Foreign Controlled		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Field, Well & Gathering Operations	1207.9	1344.5	11.3	487.7	515.0	5.6	720.2	829.4	15.2
Natural Gas Processing Plants	273.3	241.8	-11.5	93.6	109.7	17.1	179.7	132.2	-26.5
Oil Sands	639.8	671.8	5.0	230.4	283.1	22.9	409.4	388.7	-5.1
Taxes (excluding Income Taxes)	41.9	61.4	46.6	11.9	14.4	21.4	30.0	46.9	56.6
Operating Overhead	718.6	685.8	-4.6	245.4	233.8	-4.7	473.2	452.0	-4.5
Total Operating Cost	2881.5	3005.2	4.3	1069.1	1156.0	8.1	1812.5	1849.2	2.0
Federal Crown Royalties	3.0	3.3	10.7	0.2	0.2	-8.8	2.8	3.1	12.2
Provincial Royalties & Taxes	1138.5	1149.6	1.0	386.5	389.4	0.7	752.0	760.2	1.1
Non-Crown Royalties & Other	233.9	222.4	-4.9	98.9	95.2	-3.8	135.0	127.2	-5.8
Total Royalties	1375.5	1375.3	-	485.7	484.8	-0.2	889.8	890.5	0.1

	Integrateds/Refiners			Junior O&G Producers			Senior O&G Producers		
	1988	1989	Change %	1988	1989	Change %	1988	1989	Change %
Field, Well & Gathering Operations	351.7	394.9	12.3	303.4	362.8	19.6	552.8	586.8	6.1
Natural Gas Processing Plants	73.0	81.8	12.1	26.7	36.2	35.6	173.6	123.8	-28.7
Oil Sands	397.5	420.9	5.9	2.7	4.2	55.6	239.6	246.6	2.9
Taxes (excluding Income Taxes)	8.4	12.0	42.0	7.0	8.6	23.2	26.5	40.8	54.2
Operating Overhead	183.8	229.4	24.8	162.8	116.6	-28.4	372.1	339.8	-8.7
Total Operating Cost	1014.4	1139.0	12.3	502.5	528.5	5.2	1364.6	1337.8	-2.0
Federal Crown Royalties	2.3	2.8	21.7	0.2	0.1	-61.7	0.5	0.5	-12.7
Provincial Royalties & Taxes	342.6	346.8	1.2	212.9	228.3	7.2	582.9	574.5	-1.5
Non-Crown Royalties & Other	81.7	82.7	1.3	72.1	73.0	1.3	80.2	66.6	-16.9
Total Royalties	426.7	432.3	1.3	285.2	301.4	5.7	663.7	641.6	-3.3

B17

Reconciliation of Book Income to Taxable Income by Control: 1988

All Canadian Activities *in millions of dollars*

	Total Industry	Canadian-Controlled	Foreign-Controlled	Integrateds & Refiners	Oil & Gas Producers
Book Income after Income Taxes	3635	1312	2323	2882	753
Income Tax Provision	1139	410	729	1015	124
Book Income Before Income Taxes	4774	1723	3052	3897	877
Additions:					
Depreciation & Amortization	2613	1036	1576	1452	1161
Depletion	1760	1109	651	426	1334
Current E&D Expenses	613	33	580	238	374
Non-Deductible Crown Royalties	1804	638	1166	727	1077
Loss on Disposal of Assets per Books	436	54	382	85	351
Taxable Capital Gain	192	69	123	86	106
Other Additions	3234	1620	1615	870	2364
Deductions:					
Capital Cost Allowance	2386	1075	1311	1621	765
Indirect E&D Overhead Expensed	44	42	2	–	44
Resource Allowance	1557	619	938	535	1023
Interest Expensed for Tax Purpose	178	78	100	76	102
Canadian Exploration Expense Claim	1417	615	802	502	914
Canadian Development Expense Claim	885	458	426	260	624
Canadian Oil & Gas Property Expense Claim	515	222	293	156	359
Earned Depletion Allownace	262	84	179	66	196
Foreign E&D Expense Claim	91	53	38	11	79
Canadian E&D Expense Claim	1	0	1	–	1
Frontier Exploration Allowance	1	1	0	–	1
Supplementary Depletion Allowance	–	–	–	–	–
Gain on Disposal of Assets per Books	503	47	456	91	412
Cumulative Offset Account Deduction	3	3	–	–	3
Other Deductions	3243	1439	1804	1536	1707
Total Net Difference between Book Income Before Income Taxes and Current Year Net Income for Income Tax Purposes	-433	-177	-256	-970	536
Current Year Net Income for Income Tax Purposes	4341	1545	2796	2928	1413
Deduct:					
Non-Capital Losses	728	306	421	338	390
Taxable Dividends	1783	857	926	875	908
Other Deductions	210	29	181	39	170
Taxable Income (Net Of Losses)	1620	353	1267	1675	-55
Add:					
Current Year Non-Capital Losses	957	201	756	393	563
Taxable Income (Tax Base)	2577	554	2023	2069	508
Tax Credits:					
Federal Tax Abatement	272	51	221	213	59
Manufacturing and Processing Profits Deductions	60	8	53	56	4
Scientific Research and Experimental Development Tax Credit	–	–	–	–	–
Investment Tax Credit	72	15	57	54	18
'Exploration Tax Credit'	21	14	6	9	11
Other Federal Tax Credits	1	0	1	0	1
Income Tax Payable:					
Total Federal Tax	726	134	592	555	171
Provincial Tax Before Rebates and Credits	340	71	268	257	83
Net Provincial Tax	101	-47	147	222	-121
Total Income Taxes	827	87	739	777	50
Non-Capital Losses					
Opening Balance	1865	809	1056	587	1278
Current Year's Losses	957	201	756	393	563
Losses from Predecessors	171	3	168	15	157
Utilized during the year(1)	736	314	421	338	398
Expired during the year	31	7	24	27	4
Carried Back	435	74	361	207	228
Closing Balance	1791	617	1174	422	1369

(1) Includes non-capital losses used during the year to reduce Part IV taxes.

B18

Reconciliation of Book Income to Taxable Income by Control: 1988
Upstream Activities *in millions of dollars*

	Total Industry	Canadian-Controlled	Foreign-Controlled	Integrateds & Refiners	Oil & Gas Producers
Book Income after Income Taxes	1289	295	995	894	396
Income Tax Provision	298	62	236	191	107
Book Income before Income Taxes	1588	357	1230	1085	502
Additions:					
Depreciation & Amortization	1630	627	1003	660	970
Depletion	1746	1097	649	426	1320
Current E&D Expenses	597	33	564	233	364
Non-Deductible Crown Royalties	1793	631	1161	723	1070
Loss on Disposal of Assets per Books	168	31	137	94	74
Taxable Capital Gain	87	12	75	37	49
Other Additions	2203	1002	1201	274	1929
Deductions:					
Capital Cost Allowance	1270	530	740	759	511
Indirect E&D Overhead Expensed	44	42	2	–	44
Resource Allowance	1529	601	928	530	998
Interest Expensed for Tax Purpose	126	56	70	56	70
Canadian Exploration Expense Claim	1393	613	780	489	904
Canadian Development Expense Claim	880	458	421	259	620
Canadian Oil & Gas Property Expense Claim	515	222	293	156	359
Earned Depletion Allownace	246	78	168	63	184
Foreign E&D Expense Claim	88	50	38	11	76
Canadian E&D Expense Claim	1	0	1	–	1
Frontier Exploration Allowance	1	1	0	–	1
Supplementary Depletion Allowance	–	–	–	–	–
Gain on Disposal of Assets per Books	430	26	404	40	390
Cumulative Offset Account Deduction	3	3	–	–	3
Other Deductions	2133	628	1505	818	1315
Total Net Difference between Book Income Before Income Taxes and Current Year Net Income for Income Tax Purposes	-434	126	-560	-736	302
Current Year Net Income for Income Tax Purposes	1154	483	670	350	804
Deduct:					
Non-Capital Losses	394	115	279	34	361
Taxable Dividends	498	368	130	88	410
Other Deductions	168	6	162	8	160
Taxable Income (Net of Losses)	93	-6	99	220	-127
Add:					
Current Year Non-Capital Losses	885	149	736	414	471
Taxable Income (Tax Base)	978	143	836	634	344
Tax Credits:					
Federal Tax Abatement	108	16	92	59	49
Manufacturing and Processing Profits Deductions	12	1	11	9	4
Scientific Research and Experimental Development Tax Credit	–	–	–	–	–
Investment Tax Credit	39	9	30	23	16
'Exploration Tax Credit'	21	14	6	9	11
Other Federal Tax Credits	1	0	1	0	1
Income Tax Payable:					
Total Federal Tax	268	29	239	143	125
Provincial Tax before Rebates and Credits	142	20	121	79	63
Net Provincial Tax	-92	-93	1	45	-137
Total Income Taxes	176	-63	240	188	-12
Non-Capital Losses					
Opening Balance	1036	445	591	70	966
Current Year's Losses	885	149	736	414	471
Losses from Predecessors	171	1	170	14	157
Utilized during the year(1)	394	115	279	34	361
Expired during the year	26	3	24	24	3
Carried Back	468	71	397	252	216
Closing Balance	1207	409	798	188	1018

(1) Includes non-capital losses used during the year to reduce Part IV taxes.

B19

Reconciliation of Book Income to Taxable Income by Control: 1987
All Canadian Activities *in millions of dollars*

	Total Industry	Canadian-Controlled	Foreign-Controlled	Integrateds & Refiners	Oil & Gas Producers
Book Income after Income Taxes	4154	1265	2888	2839	1315
Income Tax Provision	1826	638	1188	1383	443
Book Income before Income Taxes	5980	1904	4076	4222	1758
Additions:					
Depreciation & Amortization	2541	1011	1530	1317	1224
Depletion	1658	928	730	300	1358
Current E&D Expenses	600	12	589	155	445
Non-Deductible Crown Royalties	2411	753	1658	728	1684
Loss on Disposal of Assets per Books	90	37	52	32	57
Taxable Capital Gain	331	177	155	150	181
Other Additions	4202	1834	2369	625	3577
Deductions:					
Capital Cost Allowance	2982	1212	1769	1767	1215
Indirect E&D Overhead Expensed	36	34	3	–	36
Resource Allowance	2152	737	1415	641	1511
Interest Expensed for Tax Purpose	121	33	88	35	86
Canadian Exploration Expense Claim	1197	427	770	324	872
Canadian Development Expense Claim	967	346	621	309	659
Canadian Oil & Gas Property Expense Claim	470	210	260	129	341
Earned Depletion Allownace	259	83	176	144	115
Foreign E&D Expense Claim	85	53	32	14	71
Canadian E&D Expense Claim	2	1	1	–	2
Frontier Exploration Allowance	–	–	–	–	–
Supplementary Depletion Allowance	–	–	–	–	–
Gain on Disposal of Assets per Books	423	98	324	156	267
Cumulative Offset Account Deduction	11	10	0	0	10
Other Deductions	3062	1323	1739	1691	1370
Total Net Difference between Book Income Before Income Taxes and Current Year Net Income for Income Tax Purposes	67	184	-116	-1902	1970
Current Year Net Income for Income Tax Purposes	6047	2087	3960	2320	3727
Deduct:					
Non-Capital Losses	578	148	430	148	430
Taxable Dividends	2327	1497	830	551	1776
Other Deductions	96	35	61	44	52
Taxable Income (Net of Losses)	3046	408	2639	1576	1470
Add:					
Current Year Non-Capital Losses	1156	365	790	582	573
Taxable Income (Tax Base)	4202	773	3429	2159	2043
Tax Credits:					
Federal Tax Abatement	359	72	287	184	175
Manufacturing and Processing Profits Deductions	77	8	69	60	17
Scientific Research and Experimental Development Tax Credit	4	4	0	3	1
Investment Tax Credit	147	26	120	107	39
'Exploration Tax Credit'	21	14	7	14	7
Other Federal Tax Credits	38	11	27	37	1
Income Tax Payable:					
Total Federal Tax	1172	214	958	573	598
Provincial Tax before Rebates and Credits	421	94	327	222	199
Net Provincial Tax	180	-22	203	178	2
Total Income Taxes	1352	192	1160	751	601
Non-Capital Losses					
Opening Balance	1577	558	1019	424	1153
Current Year's Losses	1156	365	790	582	573
Losses from Predecessors	92	45	48	37	55
Utilized during the year(1)	580	154	426	144	436
Expired during the year	27	21	6	2	26
Carried Back	396	35	361	315	81
Closing Balance	1821	757	1064	583	1239

(1) Includes non-capital losses used during the year to reduce Part IV taxes

B20

Reconciliation of Book Income to Taxable Income by Control: 1987
Upstream Activities *in millions of dollars*

	Total Industry	Canadian-Controlled	Foreign-Controlled	Integrateds & Refiners	Oil & Gas Producers
Book Income after Income Taxes	2737	945	1792	1484	1253
Income Tax Provision	1146	289	856	738	408
Book Income before Income Taxes	3883	1235	2649	2223	1660
Additions:					
Depreciation & Amortization	1619	604	1015	577	1042
Depletion	1588	858	730	240	1348
Current E&D Expenses	582	12	570	150	432
Non-Deductible Crown Royalties	2411	752	1658	728	1683
Loss on Disposal of Assets per Books	38	17	21	–	38
Taxable Capital Gain	91	4	87	12	78
Other Additions	2505	388	2116	203	2302
Deductions:					
Capital Cost Allowance	1638	553	1085	645	993
Indirect E&D Overhead Expensed	36	34	3	–	36
Resource Allowance	2142	727	1416	641	1501
Interest Expensed for Tax Purpose	87	15	72	21	65
Canadian Exploration Expense Claim	1175	420	755	319	856
Canadian Development Expense Claim	957	346	612	308	650
Canadian Oil & Gas Property Expense Claim	466	206	260	129	337
Earned Depletion Allownace	251	80	171	142	109
Foreign E&D Expense Claim	85	53	32	14	71
Canadian E&D Expense Claim	2	1	1	–	2
Frontier Exploration Allowance	–	–	–	–	–
Supplementary Depletion Allowance	–	–	–	–	–
Gain on Disposal of Assets per Books	190	16	175	21	169
Cumulative Offset Account Deduction	10	10	–	0	10
Other Deductions	1961	448	1513	806	1156
Total Net Difference between Book Income Before Income Taxes and Current Year Net Income for Income Tax Purposes	-169	-273	104	-1135	966
Current Year Net Income for Income Tax Purposes	3714	962	2752	1088	2626
Deduct:					
Non-Capital Losses	413	122	291	5	409
Taxable Dividends	604	148	456	139	464
Other Deductions	26	4	22	1	25
Taxable Income (Net of Losses)	2672	689	1983	943	1729
Add:					
Current Year Non-Capital Losses	843	108	735	357	486
Taxable Income (Tax Base)	3515	797	2718	1300	2215
Tax Credits:					
Federal Tax Abatement	264	55	209	91	173
Manufacturing and Processing Profits Deductions	29	1	28	14	15
Scientific Research and Experimental Development Tax Credit	1	1	0	–	1
Investment Tax Credit	76	18	58	41	35
'Exploration Tax Credit'	21	14	7	14	7
Other Federal Tax Credits	12	11	1	11	1
Income Tax Payable:					
Total Federal Tax	950	146	804	380	570
Provincial Tax before Rebates and Credits	290	63	228	107	183
Net Provincial Tax	51	-52	104	64	-13
Total Income Taxes	1002	94	907	445	557
Non-Capital Losses					
Opening Balance	870	418	452	3	867
Current Year's Losses	843	108	735	357	486
Losses from Predecessors	73	45	28	18	55
Utilized during the year[1]	402	113	289	5	398
Expired during the year	10	5	6	2	9
Carried Back	330	8	322	306	24
Closing Balance	1049	450	599	66	983

(1) Includes non-capital losses used during the year to reduce Part IV taxes.

B21

Current Year Claims and Tax Pools Remaining: 1988 in millions of dollars

	Canadian-Controlled		Foreign-Controlled		Total Industry	
	Upstream	Total	Upstream	Total	Upstream	Total
CCA – Class 10						
Opening Balance	1701	1848	2347	2458	4048	4306
Net Additions	74	122	77	123	151	245
Government Assistance	3	3	–1	–1	2	2
Adjustments	–73	–67	–124	–129	–198	–196
Claimed in Current Period	349	394	450	489	798	883
Closing Balance	1351	1506	1850	1964	3201	3470
CCA – Class 28/41						
Opening Balance	47	168	79	227	126	395
Net Additions	969	1001	510	569	1479	1571
Government Assistance	0	0	0	0	0	1
Adjustments	0	0	–62	–59	–62	–59
Claimed in Current Period	129	129	–48	–5	80	124
Closing Balance	887	1040	576	742	1463	1782
CCA – Class 29/39						
Opening Balance	188	998	416	850	605	1849
Net Additions	129	287	101	276	230	563
Government Assistance	0	7	1	1	1	7
Adjustments	–4	–43	–10	–39	–14	–82
Claimed in Current Period	18	346	171	409	189	755
Closing Balance	295	890	336	678	631	1568
CCA – All Other Classes						
Opening Balance	380	1782	513	2470	893	4252
Net Additions	55	260	394	658	449	918
Government Assistance	0	0	1	1	1	1
Adjustments	–12	–47	–120	–175	–132	–222
Claimed in Current Period	34	205	168	418	202	623
Closing Balance	388	1789	618	2535	1007	4324
Investment Tax Credit						
Opening Balance	66	76	54	84	120	160
ITC Earned	29	35	44	78	73	112
Adjustments	–4	–5	–29	–34	–33	–39
ITC Claimed and/or Refunded	10	16	31	59	41	76
Closing Balance	80	90	38	68	119	158
'Exploration Tax Credit'						
Opening Balance	15	15	1	1	16	16
'ETC' Earned	40	40	27	27	67	67
Adjustments	–1	–1	–0	–0	–1	–1
'ETC' Claimed and/or Refunded	36	36	6	6	41	41
Closing Balance	36	36	6	6	41	41
CCEE						
Opening Balance	879	1009	866	894	1745	1903
Net Additions	745	776	891	932	1636	1709
Government Assistance – 'ETC'	21	21	6	6	27	27
Government Assistance – Other	61	61	16	16	77	77
Adjustments	–113	–120	–18	–33	–131	–153
Claimed in Current Period	613	615	780	802	1393	1417
Closing Balance	815	968	938	970	1753	1938
Of which Successor Balance	264	264	126	126	390	390

B21 (continued)

Current Year Claims and Tax Pools Remaining: 1988 in millions of dollars

	Canadian-Controlled		Foreign-Controlled		Total Industry	
	Upstream	Total	Upstream	Total	Upstream	Total
CCDE						
Opening Balance	1304	1313	1592	1603	2896	2915
Net Additions	596	596	400	406	995	1002
Government Assistance	60	60	14	14	75	75
Adjustments	-102	-102	-82	-82	-184	-184
Claimed in Current Period	458	458	421	426	880	885
Closing Balance	1279	1288	1474	1486	2753	2773
Of which Successor Balance	177	177	82	82	259	259
Earned Depletion Base						
Opening Balance	635	637	1157	1215	1791	1852
Net Additions	204	204	157	172	361	376
Adjustments	-121	-117	-33	-49	-155	-166
Claimed in Current Period	78	83	168	178	246	262
Closing Balance	639	640	1114	1163	1753	1803
Of which Successor Balance	205	205	109	109	314	314
CCOGPE						
Opening Balance	2113	2165	2658	2661	4771	4826
Net Additions	919	921	645	645	1564	1566
Adjustments	-79	-79	-60	-60	-139	-139
Claimed in Current Period	222	222	293	293	515	515
Closing Balance	2731	2784	2950	2953	5681	5737
Of which Successor Balance	267	267	117	117	384	384
Foreign E&D Expenses						
Opening Balance	412	413	265	265	676	677
Net Additions	103	104	10	10	114	114
Claimed in Current Period	53	53	38	38	90	91
Closing Balance	462	464	237	237	699	701
Frontier Exploration Allowance						
Opening Balance	1	1	182	182	183	183
Claimed in Current Period	1	1	0	0	1	1
Closing Balance	0	0	182	182	182	182
Memo Items						
Canadian E&D Overhead Expenditures (CEDOE)	54	54	50	50	104	104
Resource Profits for Resource Allowance	2402	2477	3716	3756	6118	6233
Production Royalties Received	88	120	75	75	163	195
Production Royalties Paid	80	80	97	167	176	247
Interest Capitalized for Tax Purposes	4	4	13	13	16	17
Interest Expensed for Tax Purposes	554	799	1043	1321	1597	2120
Canadian Manufacturing and Processing Profits	27	145	174	932	201	1077

Appendix C Glossary of Terms

Acquisitions – the acquisition of shares of other petroleum companies or the purchase of assets from such companies. Capital outlays for these purposes are included under the category 'All Other Uses of Funds' in monitoring reports. *(Acquisitions)*

All Other Sources of Funds – proceeds from the sale of assets or long-term investments and pre-payments received for future production and the reclassification of sizeable short-term debt to long-term such as occurred in 1984. *(Autres sources de fonds)*

All Other Uses of Funds – includes acquisitions, purchases of used machinery and equipment, and long-term investments. *(Autres affectations de fonds)*

Amortization – the charge to expense, over time, of assets, other than through depreciation, depletion, and exploration and development expensed to current operations. It also includes gains or losses on disposal of assets and write-downs of assets. *(Amortissement)*

Canada Lands – physical areas of Canada outside provincial boundaries. *(Terres du Canada)*

Canadian Control – in general, a company is Canadian-controlled when 50% or more of its voting shares are held by Canadian residents either directly or indirectly. In a few exceptional cases, when a significant block of shares is held by Canadian residents and the remaining shares are widely held, a company may be effectively Canadian-controlled even though more than 50% of the voting shares are held by non-residents. *(Contrôle canadien)*

Canadian Exploration and Development Incentive Program (CEDIP) – provides direct assistance to companies conducting exploration and development activities in Canada. Beginning April 1, 1987, CEDIP provides a cash payment for 33 1/3 % of exploration and development expenses anywhere in Canada, up to a maximum of $10 million annually per company. Fiscal measures proposed under the Income Tax Reform of June 1987, provide for the phasing out of the program over approximately the same period as earned depletion; i.e. expenses incurred after October 1, 1988 and ending before June 30, 1989 will receive a 25% incentive rate, and this rate will be decreased to 16 2/3% after June 30, 1989 until the termination date of December 31, 1989. *(Le programme canadien d'encouragement à l'exploration et à la mise en valeur)*

Canadian Exploration Incentive Program (CEIP) – provides up to $3 million in incentives per corporation for each calendar year, based on 30% of eligible expenses to a ceiling of $10 million a year. The $10 million limit is for both the CEIP and CEDIP programs. The CEIP program began for oil and gas exploration on October 1, 1988 when the incentive rate for the CEDIP program fell to 25%. CEIP incentives are limited to exploration expenses incurred under flow-through agreements, where the corporation and the investor are at arms's length. *(Le programme canadien d'encouragement à l'exploration)*

Canadian Ownership – the proportion of the total voting shares of a company held, either directly or indirectly (through other corporations), by Canadian residents. *(Participation canadienne)*

Capital Employed – the net book value of total assets, less current liabilities. *(Capital utilisé)*

Capital Expenditures – investments in new machinery, equipment, structures and resource properties, whether capitalized or charged directly to current operations, as well as intangibles (e.g. cost of leased equipment), capitalized interest and capitalized repair expenditures. *(Dépenses de capital)*

Current Income Tax – the portion of the provision for income taxes, both federal and provincial, pertaining to the reporting period and assumed to be currently due. *(Impôt sur le revenu courant)*

Debt/Equity Ratio – the ratio of long-term liabilities (over one year) to shareholders' equity (share capital plus retained earnings) at the end of a period. Depending upon their terms and conditions, preferred shares may be classified as either debt or equity (see 'long-term debt'). *(Rapport d'endettement)*

Deferred Income Taxes – taxes accrued and reflected as an expense in the income statement, but not payable in the financial reporting period. Income taxes are deferred, for example, when companies write off capital assets (using capital cost allowances) for income tax purposes at rates that exceed those employed in preparing their financial reports. *(Impôt reporté)*

Depletion – the amount charged to expense in the company's financial statements which relates to depletable assets that have been capitalized. This is not the earned depletion allowance calculated for income tax purposes. *(Épuisement)*

Depreciation – the amount charged to expense which relates to depreciable assets that have been capitalized. This is not the amount of capital cost allowance that is used to compute depreciation for income tax purposes. *(Dépréciation)*

Development Expenditures – includes drilling and well completion costs in an area of already proven oil or natural gas reserves, expenditures on field gathering and separation systems, and the cost of acquiring proven reserves. *(Dépenses de mise en valeur)*

Downstream Segment – includes refining, marketing, transportation and petrochemical operations. *(Secteur aval)*

Energy Mining – uranium and coal mining (excludes oil sands mining). *(Extraction minière des ressources énergétiques)*

Equity – the book value of shareholders' paid-up capital, contributed surplus and retained earnings. *(Avoir propre)*

Exploration Costs – include all lease fees and land acquisition costs, geological and geophysical expenditures, and exploratory drilling costs whether capitalized or expensed. Exploratory drilling is generally defined as the drilling of a well outside a proven area or within a proven area but to a previously untested zone, in order to determine whether oil or gas reserves exist. Also included are costs of dry wells, casing and other materials and equipment abandoned in place. *(Frais d'exploration)*

External Sources of Funds – funds obtained from sources other than internal cash flow. Long-term debt and equity are the main examples. *(Sources externes de fonds)*

Flow-through Shares – a financial vehicle that allows a resource company to issue shares and thereby raise funds for exploration and development expenditures. In turn, the company renounces the associated tax expenses such as Canadian exploration expenses (CEE), Canadian development expenses (CDE) and Canadian oil and gas property expenses (COGPE) to the purchasers of the flow-through shares. Flow-through arrangements permit investors to deduct resource expenses incurred by the issuing corporation against income from other sources. *(Actions accréditives)*

Full Cost Accounting – an accounting method by which all costs incurred in prospecting for reserves and in acquiring, exploring and developing properties within cost centres are initially capitalized and only charged to expense as the reserves deemed to be related to those costs are produced. Costs incurred include prospecting, leasing, acquisition, retention, exploration and development costs, and associated indirect costs (i.e. general and administrative costs). Operating costs are expensed as incurred. *(Méthode de capitalisation du coût entier)*

Integrated Companies – individual companies that have significant revenues in both the upstream and downstream segments. *(Sociétés intégrées)*

Internal Cash Flow – net income after tax plus exploration and development expenditures expensed in the current period, depreciation, depletion, amortization and deferred income taxes. *(Ressources d'autofinancement)*

Junior Producers – companies that are predominantly exploration and production oriented and that individually generate less than 1% of industry upstream revenues. *(Petits producteurs)*

Long-term Debt – debt that has a maturity date greater than one year. Preferred shares may be treated as long-term debt when they are redeemable for a fixed amount without conversion privileges or voting rights. *(Dette à long terme)*

Non-cash Charges – items expensed in the reporting period that do not require an actual financial outlay in that period, such as depreciation, depletion and amortization. *(Frais non monétaires)*

Non-conventional Heavy Oil – deposits of oil of a density usually greater than 934 kg/m^3 that are for the most part recoverable through enhanced recovery methods. Canadian deposits of heavy oil are typically in the range of 935 to 985 kg/m^3. Main centres are Cold Lake and Lloydminster. *(Pétrole lourd non classique)*

Oil Sands – crude bitumen resources from deposits that are generally solid unless heated and are of a density usually greater than 985 kg/m^3. Athabasca, Peace River, Wabasca, Cold Lake and Buffalo Head Hills are the main Canadian resource areas. *(Sables pétrolifères)*

Other Canadian Operations – include drilling services, coal and uranium mining, metal mining, and other non-petroleum related activities. In addition, corporate activities may be included here. *(Activités autres au Canada)*

Petroleum Incentives Program (PIP) – provided direct incentive payments to enterprises conducting exploration and development activities in Canada. The level of incentive varied according to the area of activity and was higher for enterprises that were Canadian controlled and had specified levels of Canadian ownership as determined under the Canadian Ownership and Control Determination Act. The Government of Alberta administered and paid incentives for activities within Alberta, and the Petroleum Incentives Administration of the Government of Canada funded and administered the program elsewhere in Canada. Fiscal measures agreed upon under the Western Accord included the termination of the PIP program on March 31, 1986 for all activities formerly eligible to receive grants, other than exploration expenses incurred in drilling frontier wells required to satisfy commitments under existing Exploration Agreements on Canada Lands. These eligible frontier wells continued to qualify for PIP during a further grandfathering period which was terminated December 31, 1987. *(Programme d'encouragement du secteur pétrolier)*

Petroleum and Gas Revenue Tax (PGRT) – a tax on production revenue net of operating costs, non-Crown royalties and, where Crown royalties or taxes based on production were payable, a 25% resource allowance. Qualifying tertiary recovery projects also reduced the tax base by eligible capital costs incurred after 1982 to the extent of pool taxable revenue. In April 1986, the existing $500,000 small producers' credit was increased to $2 million and the deduction for individuals of $10,000 of resource income from the PGRT was increased to $40,000. The Syncrude and Suncor oil sands plants were also granted a zero rate of PGRT until the end of 1986. Companies in a non-profit position were allowed to offset unused new exploration and development expenditures against the PGRT. The Western Accord would have phased PGRT out of existence by January 1, 1989, but on September 8, 1986 the Government of Canada announced its termination effective October 1, 1986. PGRT was non-deductible for income tax purposes. *(Taxe sur les recettes pétrolières et gazières)*

Production Expenditures – all expenditures relating to the production of crude oil and natural gas. Expenditures on natural gas processing plants are included. *(Dépenses de production)*

Senior Producers – companies that are predominantly exploration and production oriented and that individually generate more than 1% of industry upstream revenues. *(Grands producteurs)*

Successful Efforts Accounting – an accounting method by which only costs resulting directly in identifiable future benefits through discovery, acquisition or development of reserves are capitalized. Costs that do not provide identifiable future benefits are expensed as incurred, or are written off when the properties are determined to be non-productive. Such costs include those relating to geological and geophysical studies, retention of undeveloped properties, and non-productive exploration and development efforts. *(Méthode de capitalisation du coût de la recherche fructueuse)*

Upstream Segment – activities and operations related to the search for, and development, production, extraction and recovery of crude oil, natural gas, natural gas liquids and sulphur, as well as the production of synthetic oil. *(Secteur en amont)*

Working Capital – current assets (cash, short-term investments, accounts receivable, inventories) less current liabilities (accounts payable, debts and obligations maturing in less than one year). *(Fonds de roulement)*

Income Tax-Related Definitions

Capital Cost Allowance (CCA) – is the income tax equivalent of accounting depreciation. A taxpayer is permitted to deduct certain allowances in respect of the capital cost of depreciable property to the extent prescribed by the Income Tax Regulations (ITR). The June 1987 Tax Reform reduced the CCA rates for certain types of property to bring their CCA rate more in line with actual depreciation rates. It also introduced the put-in-use rule for property acquired after 1989. According to this rule, taxpayers cannot claim CCA and the investment tax credit is not earned until the earliest of either the year the asset is put in use or the year in which the construction is completed and it is ready for use. *(Allocations du coût en capital)*

Some of the more relevant classes of Capital Cost Allowance for the oil and gas, and mining industries are:

Class 10 – includes assets such as oil and gas well equipment, drilling rigs (except offshore drilling vessels), certain geophysical equipment, heavy oil upgrading equipment, and certain tangible assets acquired in connection with oil and gas exploration and development not included as a Canadian Exploration Expense or a Canadian Development Expense (see below) (ref: Schedule II of the ITR). Most of the property that prior to 1988 would have qualified as Class 10, and therefore written–off at a rate of 30% per annum, is now class 41 which is written down at a rate of 25%. *(Catégorie 10)*

Class 28 – includes assets used in the gaining or producing of income from new mines or major expansions of mines (including oil sands deposits) (ref: Schedule II of the ITR). The Tax Reform reduced the CCA rate for this class from 30% to 25% per year. *(Catégorie 28)*

Class 29 – includes assets manufactured or acquired by the taxpayer and used directly or indirectly by the taxpayer in Canada primarily in the manufacturing or processing of goods for sale or lease (ref: Schedule II of the ITR). Under the previous legislation the assets included in this class could be depreciated on a straight–line basis. For assets acquired after 1987, a separate class is to be established; the CCA rate for this new class is 40% in 1988, 35% in 1989, 30% in 1990 and 25% on a declining balance basis thereafter. *(Catégorie 29)*

Depletion:

Earned Depletion Allowance – a deduction from income not exceeding the lesser of either 25% of resource profits for earned depletion purposes or the earned depletion base. The Tax Reform proposals phased out the balance of earned depletion in two stages ending December 31, 1989 (ref: ITR 1201). *(Déduction pour épuisement gagné)*

Earned Depletion Base – an amount, net of prior years earned depletion allowances claimed, equal to 33-1/3% of qualifying prescribed expenditures. Qualifying prescribed expenditures include integrated oil sands projects, enhanced recovery projects and heavy crude oil upgraders. For 1984, the additions to the earned depletion base also include 10% of Canadian Exploration Expenses incurred on Canada Lands. Tax Reform reduced to 16 1/3% the prescribed percentage of eligible expenses to be added to the Earned Depletion Base (ref: ITR 1205). *(Base de la déduction pour épuisement gagné)*

Frontier Exploration Allowance – a deduction with respect to expenditures incurred between April 1, 1977 and March 31, 1980. The Frontier Exploration Allowance was 66 2/3% of any CEE expense to the extent that the expense exceeded $5 million. The unclaimed balance of such allowance constitutes a corporation's Frontier Exploration base. *(Allocation pour exploration frontalière)*

Mining Exploration Depletion Allowance – a deduction from income not exceeding the lesser of either 25% of income from any source or the mining exploration depletion base (ref: Draft ITR 1203(1)). *(Déduction à l'égard d'épuisement pour exploration minière)*

Mining Exploration Depletion Base – an amount, net of prior year mining exploration depletion allowances claimed, equal to 33-1/3% of Canadian Exploration Expenses incurred after April 19, 1983 (ref: Draft ITR 1203(2)). *(Base d'exploration minière pour épuisement)*

Supplementary Depletion Allowance – prior to 1981, expenditures in respect of enhanced oil recovery projects, bituminous sands and heavy oil upgrading were not eligible for earned depletion, but instead were eligible for supplementary depletion. *(Déduction supplémentaire pour épuisement)*

Exploration, Development and Property Acquisition Costs:

Canadian Development Expense (CDE) – any expense, other than a Canadian Exploration Expense (see below), incurred in drilling or completing an oil or gas well prior to the commencement of production in commercial quantities from the well, or in drilling or converting a well to dispose of waste liquids or to inject materials to assist in the recovery of petroleum and natural gas from another well. Also included is the expense of drilling or recompleting a well after production in commercial quantities has commenced, expenses incurred before November 17, 1978 in bringing a mineral resource into production, and the expense of acquiring a mineral resource in Canada other than payments made for the preservation of a mineral resource property (ref: Paragraph 66.2(5)(a) of the Income Tax Act (ITA)). *(Frais d'aménagement au Canada)*

Cumulative Canadian Development Expense (CCDE) – a "pool" equal to the aggregate of all previously incurred CDE less specified amounts. These specified amounts include amounts of CCDE previously deducted in computing income for tax purposes and the aggregate of related federal and provincial government assistance or benefits received (eg. PIP development grants) (ref. Paragraph 66.2(5)(b) of the ITA). *(Frais cumulatifs d'aménagement au Canada)*

Deduction for CCDE – a deduction which is available in respect of CCDE which permits all taxpayers to deduct an amount not exceeding 30% of their CCDE pool balance in computing income for tax purposes (ref: Subsection 66.2(2) of the ITA). *(Déduction pour frais d'aménagement cumulatifs engagés au Canada)*

Canadian Exploration Expense (CEE) – any expense incurred in determining the existence, location, extent or quality of an accumulation of petroleum or natural gas, or a mineral resource in Canada. CEE includes geological, geophysical and geochemical expenses and any expense relating to the first well capable of commercial production that is drilled in an area where hydrocarbons were not previously known to exist. Effective April 1, 1987 several modifications were made providing taxpayers an additional six months following the end of a taxation year to determine whether a well has been abandoned or resulted in a discovery of a new accumulation. The production criterion has been revised so that production is considered "commercial" only if it is in excess of amounts required for testing or other "prescribed" uses. Special provisions apply for capped or shut in wells with no production from an accumulation known to exist as well as for wells being reclassified from CDE. Also, wells costing in excess of $5 million, that are not producible within two years after completion of drilling, receive exploration treatment from the outset. Expenses incurred after November 16, 1978 in bringing a mineral resource into production are also included (ref: Paragraph 66.1(6)(a) of the ITA). *(Frais d'exploration au Canada)*

Cumulative Canadian Exploration Expense (CCEE) – a "pool" equal to the aggregate of all previously incurred CEE less specified amounts. These specified amounts include amounts of CCEE previously deducted in computing income for tax purposes and the aggregate of related federal and provincial government assistance or benefits received (e.g. PIP exploration grants) (ref: Paragraph 66.1(6)(b) of the ITA). *(Frais cumulatifs d'exploration au Canada)*

Deduction for CCEE – a principal business corporation (ref: Paragraph 66(15)(h) of the ITA) must deduct its balance of CCEE in computing income for tax purposes to the extent that it has income. It may not, however, create a non-capital loss (see below) through its claim for CCEE (ref: Subsection 66.1(2) of the ITA). A non-principal business corporation and all other taxpayers may deduct 100% of their CCEE pool balance in computing income for tax purposes and may create a non-capital loss thereby (ref: Subsection 66.1(3) of the ITA). *(Déduction pour frais cumulatifs d'exploration au Canada)*

Canadian Oil and Gas Property Expense (COGPE) – any expense incurred in acquiring any right, licence or privilege to explore for, drill for or take petroleum, natural gas or related hydrocarbons in Canada, any oil or gas well in Canada, or any rental or royalty computed by reference to the amount or value of production from an oil or gas well in Canada other than a payment made for the preservation of such property (ref: Paragraph 66.4(5)(a) of the ITA). *(Frais à l'égard de biens canadiens relatifs au pétrole et au gaz)*

Cumulative Canadian Oil and Gas Property Expense (CCOGPE) – a "pool" equal to the aggregate of all previously incurred COGPE less specified amounts. These specified amounts include amounts of CCOGPE previously deducted in computing income for tax purposes and the aggregate of related federal and provincial government assistance or benefits received (ref: Paragraph 66.4(5)(b) of the ITA). *(Frais cumulatifs à l'égard de biens canadiens relatifs au pétrole et au gaz)*

Deduction for CCOGPE – a deduction which is available in respect of CCOGPE which permits all taxpayers to deduct an amount not exceeding 10% of their CCOGPE pool balance in computing income for tax purposes (ref: Subsection 66.4(2) of the ITA). *(Déduction pour frais cumulatifs à l'égard de biens canadiens relatifs au pétrole et au gaz)*

Cumulative Offset Account (COA) – a deduction which allows companies to use write-offs associated with exploration and development expenditures incurred after March 31, 1985 – which are not immediately claimable under federal corporation income tax – to shelter net production revenue from PGRT during the PGRT phase-out period. For PGRT purposes, a corporation is entitled to claim a tax credit equal to the lesser of either the PGRT payable or 30% of the amount by which the current COA exceeds the immediately preceding year's COA. If a deduction from COA is made in the computation of taxable income the amount is subject to a 30% tax. A corporation must claim its remaining COA by the end of its 1994 taxation year; any remaining balance expires after that date. *(Compte compensatoire cumulatif)*

Foreign Exploration and Development Expense (FEDE) – a deduction which is available in respect of exploration, development and property acquisition costs, including payments made for the preservation of a foreign resource property, incurred by a corporation in a country other than Canada. Where the corporation has foreign production or royalty income in excess of 10% of the corporation's FEDE, the deduction must equal the amount of that income. Where the production or royalty income is less than 10% of the corporation's FEDE, the deduction must equal 10% of the FEDE. FEDE carried over to a subsequent year is reduced by the amount that was deductible in a previous year, whether or not the amount was actually claimed (ref: Subsection 66(4) of the ITA). *(Frais d'exploration et d'aménagement étrangers)*

Successor Balance – the amount of a successor account that may be deducted by a successor corporation. The Income Tax Act imposes restrictions on the source of income against which successor balances may be deducted. *(Solde successoral)*

Gains and Losses:

Allowable Business Investment Loss – one-half of the loss arising from the arm's length disposition of a capital asset which is a share of a capital stock of a Canadian Controlled Private Corporation (CCPC), a debt owing to the taxpayer by a CCPC, shares of any corporation which has become bankrupt during the previous year, or a debt owing to the taxpayer which the taxpayer has determined to be a bad debt in the year. The inclusion rates for the allowable investment losses have been changed in the same manner as for taxable capital gains and allowable capital losses. A two–thirds rate is effective for taxation years of Canadian–controlled private corporation commencing after 1987 and for taxation years of other corporations commencing after June 30, 1988. The inclusion rate will be increased to three–quarters for all corporations after 1989 (ref: Paragraphs 38(c) and 39(1)(c) of the ITA). *(Perte déductible au titre d'un placement d'entreprise)*

Allowable Capital Loss – one-half of the loss arising from the disposition of a capital asset where, at the time of disposition, the adjusted cost base of the asset exceeds the proceeds of disposition. With the changes in the inclusion rates from 1987 to 1990, the net capital loss claimed in a year by a corporation will be adjusted depending on any difference in the inclusion rate in the loss year and the year of claim.(ref: Paragraphs 38(b) and 40(1)(b) of the ITA). *(Perte en capital déductible)*

Foreign Exchange Gains/Losses – gains or losses resulting from currency fluctuations relative to Canadian currency on assets or liabilities denominated in foreign currency which are held by the corporation throughout the year. These may be treated as capital gains or losses or income gains or losses on realization (ref: Interpretation Bulletin 95R). *(Pertes ou gains relatifs aux monnaies étrangères)*

Net-Capital Loss – the amount of all allowable capital losses incurred in the year or prior years which have not yet been deductible in computing income for tax purposes (ref: Paragraph 111(8)(a) of the ITA). *(Perte en capital nette)*

Non-Capital Loss – the aggregate of all business and property losses for tax purposes incurred in the year including allowable business investment losses. To the extent that a non-capital loss is not claimable in a taxation year, it may be carried over to other years. The carryover period extends back three taxation years and forward seven taxation years (ref: Paragraph 111(8)(b) of the ITA). *(Perte autre qu'une perte en capital)*

Taxable Capital Gain – one-half of the gain arising from the disposition of a capital asset. The amount of the gain is measured as the difference between the proceeds of disposition and the adjusted cost base of the asset. The portion of capital gains to be included in income will increase to 66 2/3% in 1988 and 75% in 1990. These rates are to be effective June 30, 1988 and January 1, 1990 respectively. For CCPCs the 66 2/3% rate is to be effective January 1, 1988 (ref: Paragraphs 38(a) and 40(1) of the ITA). *(Gain en capital imposable)*

Terminal Loss – the loss arising at the end of a taxation year when an unclaimed balance remains in a CCA class and the taxpayer no longer owns any property included in that class (ref: Subsection 20(16) of the ITA). *(Perte finale)*

Tax Credits:

Exploration Tax Credit (ETC) – Canadian Exploration Expenses in respect of wells costing more than $5 million earn a refundable ETC at the rate of 25% of such expenses. Expenses for overhead, financing charges, other expenses which are not well-specific, and expenses which attract incentives under the Canadian Exploration and Development Incentive Program and Canadian Exploration Incentive Program are not included. The ETC claimed reduces the amount of Canadian Exploration Expenses otherwise claimable. For taxation years prior to 1988 a refund of 40% of the credit not otherwise utilized in the year may be applied for by taxpayers. Only expenses incurred after March 31, 1985 to December 31, 1990 are eligible for ETCs. *(Crédit d'impôt à l'exploration)*

Foreign Tax Credit – a deduction from taxes otherwise payable of an amount equal to the lesser of the business income taxes paid to a foreign government in respect of business activity carried on in that country or the Canadian taxes otherwise payable on that activity. Certain carryover provisions (see below) are available where a corporation is unable to utilize the entire amount of foreign taxes paid in a given year as a foreign tax credit (ref: Subsection 126(2) of the ITA). *(Déduction pout impôt étranger)*

Foreign Tax Carryovers – business income taxes paid in a foreign country which are not fully creditable against Canadian income tax in the particular year may be carried forward for the five immediately succeeding years. No carryback provisions exist. A foreign tax carryforward is creditable against Canadian income tax in the subsequent five-year period only to the extent that the taxpayer has income from any business carried on in that particular country (ref: Paragraph 126(7)(b) of the ITA). *(Report d'impôt étranger)*

Investment Tax Credit (ITC) – Depending on the nature of certain capital or depreciable assets acquired in the year and the location in Canada where those assets are used, tax credits ranging from 7% to 50% of their capital cost are available. ITCs claimed in the year reduce the amount eligible for the Capital Cost Allowance in respect of the asset. Credits earned prior to April 20, 1983 were restricted to a maximum annual claim of $15,000 of tax payable plus one-half of the amount by which the ITC exceeds $15,000. Credits earned after April 19, 1983 may be claimed without limitation against tax payable or partially refunded where no taxes are payable. In its February 1986 Budget, the federal government announced the phaseout over two years, commencing in January 1987, of the general 7% and 10% ITC available in regions other than the Atlantic provinces. The existing 20% ITC available in the Atlantic region remain, and was extended to the offshore of that

region. For taxation years ending after 1987, the ITCs deductible in computing tax payable are limited by an "annual investment tax credit limit". The rates of credit for research and development remain unchanged at 20% and 30% (ref: Section 127 of the ITA). *(Crédit d'impôt à l'investissement)*

Scientific Research and Experimental Development Tax Credit (SREDTC) – Corporations may deduct from income tax otherwise payable an amount not more than 50% of their expenditures incurred through the purchase of equity or debt obligation instruments issued by a research performing corporation pursuant to a Scientific Research Financing Contract. The corporation claiming the SREDTC must be the first purchaser of such debt obligations. The taxpayer may deduct from its tax otherwise payable under Part I, an amount not exceeding the aggregate of the credit earned in that year plus its unused credit for the year immediately following that year (ref: Section 127.3 and Section 194 of the ITA) (see also Investment Tax Credit). *(Crédit d'impôt pour la recherche scientifique)*

Other Tax Deductions:

Canadian Dividends – taxable dividends from either a taxable Canadian corporation or a corporation resident in Canada which is controlled by the dividend recipient. A deduction from income equal to the dividend received is allowed (ref: Subsection 112(1) of the ITA). *(Dividendes canadiens)*

Non-Taxable Foreign Dividends – dividends paid out of business income by corporations that are foreign affiliates (ref: Paragraph 95(1)(d) of the ITA). The dividends are recorded net of foreign withholding taxes. The rules for deductions in respect of dividends received from foreign affiliates are described in Subsection 113(1) of the ITA. *(Dividendes étrangers non imposables)*

Canadian Exploration and Development Overhead Expenses (CEDOE) – general and administrative costs, indirectly related to exploration and development activities, which are capitalized as CEE and CDE expenses and are deducted from resource profits used to determine resource allowance. *(Dépenses de frais généraux d'exploration et de mise en valeur au Canada)*

Federal Tax Abatement – a deduction from tax otherwise payable by a corporation equal to 10% of the corporation's taxable income earned in a province or territory. The deduction recognizes the fact that income tax is levied by provincial governments (ref: Subsection 124(1) of the ITA). *(Abattement d'impôt fédéral)*

Manufacturing and Processing Profits Deduction – a deduction from tax otherwise payable on income arising from the manufacturing or processing of goods in Canada of 6% of income not eligible for the small business deduction and of 5% of income eligible for the small business deduction. The Tax Reform reduces the difference between the general rate and the rate for manufacturing and processing profits to 2% in 1988; this difference will increase 1% annually through 1991, when it will reach 5%. For a corporation that qualifies for both the small business deduction and the manufacturing and processing profits deduction, the federal tax rate applicable before surtax, is 12% (ref: Section 125.1 of the ITA). *(Déduction pour bénéfices de fabrication et de transformation)*

Resource Allowance – a deduction from income equal to 25% of the taxpayer's resource profits. The deduction is allowed in lieu of any deduction for royalties paid to the Crown (ref: ITR 1210). *(Déduction à l'égard des ressources)*

Appendix D PMA Terms of Reference

Mandate of the Petroleum Monitoring Agency

The Petroleum Monitoring Agency (PMA) was established initially in 1980 under the Inquiries Act and continues under the Energy Monitoring Act (EMA)[1] after February 1983. The Agency's goals are to provide the federal government and Canadians generally with comprehensive and objective information on and analysis of the financial performance of the petroleum industry in Canada:

(a) to enable the Government of Canada to better plan and develop policies for the management of Canada's energy supplies and resources, and,

(b) to provide the Government of Canada and Canadians generally with assurances that those policies are being pursued and are effective.[2]

These goals are accomplished by publishing semi-annual and annual reports based on information received directly from all but the smallest oil and gas companies doing business in Canada.

To provide impartiality of reporting and maintain credibility among users, the PMA was created as a separate and independent Agency, with its Chairman reporting directly to the Minister of Energy, Mines and Resources.

The Act, at subsection 5(1), sets out that energy enterprises shall file, twice a year, returns providing data and information relating to:

(a) ownership and control,
(b) sources and application of funds,
(c) exploration, development, production, processing, refining and marketing,
(d) cost and revenues,
(e) deductions, credits, allowances and carry forwards provided under the Income Tax Act,
(f) the distribution and disposition of its revenues and profits,
(g) resources, reserves and properties,
(h) ownership or interest in any other enterprise,
(i) research and development programs, and
(j) other prescribed matters relating to oil and gas production, refining and marketing, and the funds derived from such activities.

Energy enterprises are defined as individuals, corporations, partnerships, trusts or organizations engaged in the exploration for, development, refining and marketing of oil and gas and having consolidated gross annual revenues or assets in excess of ten million dollars. Regulations prescribe that gross revenues and assets be determined according to accounting standards set out in the Canadian Institute of Chartered Accountants Handbook. Currently only corporations are surveyed by the Agency. Each energy corporation is required to report on a consolidated basis on the activities of corporations it controls or owns.

Sources of Data and Information

The data published in the *Petroleum Monitoring Report* are aggregate data derived mainly from survey schedules prescribed by regulations.[3] Since part of the Agency's information gathering function falls within areas covered by Statistics Canada, a number of data sharing agreements were negotiated between PMA and Statistics Canada under section 11 of the Statistics Act. These agreements reduce the industry's response burden in relation to the Agency's overall information requirements. Information also flows from PMA to Statistics Canada. Current data sharing agreements relate to:

- ownership and control of energy enterprises,
- capital structure,
- international flows of funds,
- research and development expenditures,
- exploration, development and capital expenditure intentions,
- quarterly corporate financial statistics, and
- capital expenditures and operating costs.

The first five of these involve transmission of information to the PMA; the last includes information on such subjects as exploration, development and production expenditures, and royalties from the PMA to Statistics Canada.

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(1) S.C. 1980-81-82-83, c. 112.
(2) P.C. 1980-2137.
(3) Currently prescribed schedules are contained in regulation SOR/89-531

Data Coverage

Industry gross revenues covered by the PMA through aggregation of returns from 127 reporting enterprises account for 89% of upstream industry revenues as determined by Statistics Canada. The remaining 11% of industry revenues accrue to firms having revenues or assets below the Agency's current reporting thresholds. The high degree of coverage of industry revenues and the inclusion of all but the smallest energy enterprises enable conclusions drawn from Agency aggregates to be applied to the industry as a whole. Degrees of coverage of other performance indicators are presented below.

Comparison of PMA Data with 1988 Industry Aggregates
Percentage of industry aggregates covered

Upstream Production Revenues	89
Upstream Expenditures in Canada	89
Production Volumes:	
Crude Oil and Liquids	87
Marketable Natural Gas	92
Refined Product Sales Volumes	97

Comparison of Survey Results – PMA vs. Statistics Canada

The petroleum industry's financial performance is regularly compared to that of other sectors of the economy using aggregate data from Statistics Canada. Net income and rates of return information provided in Chapters 1 and 2 of this report will differ slightly from the results shown in Chapter 3 because the latter is based on Statistics Canada data.

Petroleum industry data from Statistics Canada, while covering a greater number of companies than the PMA survey, exclude government business enterprises as well as the foreign activities of Canadian petroleum companies. The PMA survey covers the global activities of petroleum companies operating in Canada, including Crown corporations, provided these companies meet the minimum requirements in terms of assets and revenues. In addition, though Statistics Canada may make adjustments to company reported data, the PMA reports only on the industry's activities as they are submitted. For example, in 1983, a write-down by one large Canadian-controlled company of assets of $1 billion was treated as 'extraordinary' by Statistics Canada, whereas the Agency accepted the entry as 'ordinary', as reported by the company.

Regarding rates of return, both agencies determine return on capital employed by adding back to net income the after-tax portion of interest on long-term debt. While the PMA produces this calculation for each company individually, using the statutory tax rate on that portion of interest expense which would increase net income, the add back on Statistics Canada aggregate industry results must rely on the average effective tax rate, i.e. current taxes as a percentage of net income before taxes.

Ownership and Control Determination

The Agency publishes information annually on the level of Canadian ownership and control of the oil and gas industry in Canada. The methodology and sources of information underlying its analyses are summarized below.

In the process of control determination, the Agency has based its definition on whether Canadian or foreign shareholders have potential control over a reporting enterprise's overall operations. Control is a contractual right conferred upon a person, or group of persons, to direct, within the limitations of relevant statutes, in the present or at some future date, the affairs or management of a company, on a day to day basis or otherwise, usually through the appointment of a majority of a board of directors. Control is not to be confused with managerial responsibility for the firm. The concept of control emerged in order to recognize the separation in modern corporations between managers and shareholders. Shareholders assert control over management through the board of directors and the shareholders' meeting.

Control that is exercised by, for instance, nominating and electing the majority of the directors is active control. Control is just as real when the shareholder with a continuing right to intervene chooses instead, for whatever reason, not to exercise that right. The latter unexercised option to take active control is called potential control. For the purposes of the PMA, the two types of control – active and potential – are equivalent. Both types are called control. The Canadian Business Corporations Act similarly embraces the concept of potential control within its definition of control which refers to sufficient votes, "*if exercised*, to elect a majority of the directors of the body corporate."

While control is generally based on the ownership of 50% or more of voting shares, it is possible for control to be exercised with a smaller ownership block. A person who owns at least 51% of the voting shares is said to have "de jure" control. One who owns less than 50% of the voting shares, but is able to alter the composition of the board of directors and/or management, is said to have "de facto" control. Statistics Canada assigns "de facto" control of a public corporation, for the purposes of the Corporations and Labour Unions Return Act (CALURA), to a person owning at least 20% of the outstanding voting shares when no other two shareholders together own as much as 20%.(1) The PMA methodology for determining control in such cases is consistent with that used by Statistics Canada. "De facto" control may also be conferred upon a person, or group of persons, owning less than 51% of the voting shares of a public or private corporation through several other mechanisms:

(a) *Blocks of voting shares* – Two or more shareholders whose holdings together sum more than 50 % of total shares and who generally act in concert.

(b) *A shareholders' agreement* – An agreement among some or all shareholders to vote or act in certain ways in various contingent circumstances, especially in relation to naming directors.

(c) *Options* – A minority shareholder enjoys the right at any time to acquire additional voting shares to raise his holdings to 51% or more of the outstanding voting shares.

(d) *Personal Relationships* – Where two shareholders are related by blood relationship, marriage or adoption, they may be deemed to constitute a voting group.

(e) *Interlocking Directorships* – When corporation A owns at least a minimum percentage of voting shares of corporation B, and is the single largest minority shareholder of corporation B, and both corporations share a large number of common directors, corporation A is said to control corporation B.

For purposes of determining the industry-wide level of control, 100% of the relevant yard stick of the controlled company is assigned to the appropriate control category. Thus, regardless of the percentage ownership of voting rights by non-residents, if the company is effectively controlled by non-residents, then for statistical purposes 100% of its activities are assigned to the foreign-controlled sector. To illustrate, several integrated companies included in this report, though all foreign controlled, have varying degrees of Canadian ownership (up to 30%). However, when measuring the level of control the entirety of their relevant corporate activities is assigned to the appropriate control sector.

In the case of ownership, that percentage of the relevant yardstick which represents the beneficial ownership of formal equity by non-residents is assigned to the foreign-owned category, while that of Canadian residents is assigned to the Canadian-owned category.

The most commonly used yardsticks are upstream or total petroleum-related revenues (upstream plus downstream). Ownership and control are generally measured on gross revenues recognizing that these best reflect economic activity and that they are a stable proxy for net economic benefits over time. For example, the deduction of royalties from gross petroleum revenues would have little or no impact on the relative distribution of revenue between Canadian and foreign owners.

Other measurement bases such as assets or capital employed do exist but suffer from the deficiencies of relying upon historical 'book' values rather than current market value, and of being subject to the different accounting techniques used in the petroleum industry such as the full cost and successful efforts methods.

The Agency has access to ownership and control information collected under CALURA from those enterprises which report under the EMA. CALURA requires detailed disclosure of ownership information from all owners of blocks of shares equal to or greater than 5% of total voting shares. Should a reporting energy enterprise fail to file a timely return under CALURA, Regulation SOR/85-328 authorizes the Agency to obtain the ownership and control information directly.

(1) *The Ownership, Control, and Country of Control of Corporations*, Statistics Canada, June 4, 1987, p. 8.

Recently, the Agency took steps to 'look through' the nationality and ownership of nominee holdings deemed to be Canadian due to the residence of the nominee regardless of that of the beneficial owner. Energy enterprises were requested to grant the PMA access to their Holders of Record listings held by depositories in Canada and the U.S.A. In several instances, such information revealed a significantly lower degree of beneficial Canadian ownership than reported in CALURA information. The results of this activity will be published in future monitoring reports.

Inter-period Comparability of Results

The Canadian Petroleum Industry Monitoring Report presents comparisons of the current reporting period's results with those of previous comparable periods. Such comparisons are sensitive to changes in the list of reporting companies defined as the 'industry', in its analytic groups, i.e. integrateds and refiners, and oil and gas producers, and in the control status of reporting enterprises. To permit valid inter-period comparisons, the Agency consistently fixes industry group membership and control according to the reported information for the current period, and imposes that membership and control on results for the prior reporting periods.

Lists of reporting enterprises (i.e. corporations with more than $10 million in assets or sales) are updated each reporting period. Newly qualifying enterprises are added to the industry aggregates and the respective group only when results for two comparable reporting periods are available. Occasionally, enterprises exit from the industry during the current period, by acquisition or wind-up. Prior period results for both the industry and the group presented in the current period's report will reflect the exit of the former reporting enterprise: the enterprise is excluded from the current and the prior period aggregates. Should the exit result from acquisition by a reporting enterprise, the acquired enterprise's prior period results are added to those of the acquiring enterprise regardless of whether the acquired enterprise was in the same analytic group as the acquisitor.

Divestitures or acquisitions by reporting enterprises during the current period may result in an enterprise satisfying the inclusion criteria of an analytic group other than that to which it has been assigned in the prior period's Monitoring Report. For example, where an integrated group member divested itself of its downstream operations during the current period, it would be included in either the senior or junior producer group, depending upon the facts of the matter, for the current period and with that group's aggregate results for the corresponding prior period. It is important to note that all the divesting enterprise's prior period assets and revenues, regardless of the segment of operations, are transferred to the current period analytic group to establish prior period analytic group aggregates.

Similar adjustments to industry and analytic group aggregates are made in cases where ownership switches from Canadian to foreign or vice versa. The current period nationality of ownership determines that of the prior period for purposes of inter-period comparisons. However, in that part of the annual Monitoring Report dealing with ownership and control, the analysis takes into account the changes in the control of the reporting companies as they occur.

Appendix E Reporting Energy Enterprises

Alberta Energy Company Ltd.
Alberta Oil Sands Equity
Altana Exploration Company
Amerada Minerals Corporation of Canada Ltd.
American Eagle Petroleums Ltd.
American Trading and Production Corporation
Amoco Canada Petroleum Company Ltd.
Anadarko Petroleum of Canada Ltd.
Anderson Exploration Ltd.
AT&S Exploration Ltd.
ATCOR Ltd.
Atlantis Resources Ltd.
Barnwell Of Canada, Limited
Bow Valley Industries Ltd.
Bowtex Energy (Canada) Corporation
BP Canada Inc.
Bralorne Resources Limited
Buttes Resources Canada Ltd.
Cabre Exploration Ltd.
Canada Northwest Energy Limited
Canadian Hunter Exploration Ltd.
Canadian-Montana Gas Co. Ltd.
Canadian Occidental Petroleum Ltd.
CANPEX Co. Ltd.
Canterra Energy Ltd.
Carlyle Energy Ltd.
Chauvco Resources Ltd.
* Chevron Canada Limited
Chevron Canada Resources Limited
Chevron Standard Limited
Chieftain Development Co. Ltd.
CN Exploration Inc.
Coho Resources Limited
Columbia Gas Development of Canada Ltd.
Conoco Canada Limited
Consolidated Trans-Canada Resources Ltd.
Conwest Exploration Company Limited
Cooperative Energy Development Corporation
Coseka Resources Limited
Czar Resources Ltd.
Dekalb Energy Canada Ltd.
Denison Mines Limited
Dorset Energy Corporation
Dynamar Energy Ltd.
Dynex Petroleum Ltd.
Encee Group Ltd.
Encor Energy Corporation Inc.
Enerplus Resources Corporation
Enron Oil Canada Ltd.
Erskine Resources Corporation
Excel Energy Inc.
* Federated Co-operatives Limited
Forest Oil Corporation (Canada Division)
Gardiner Oil and Gas Ltd.
Gulf Canada Resources Limited
Hamilton Brothers Canadian Gas Company
Harvard International Resources Ltd.
Home Oil Company Limited
* Husky Oil Ltd.
* Imperial Oil Limited
ICG Resources Ltd.
Inverness Petroleum Ltd.
* Irving Oil Limited
J.M. Huber Corporation
Kerr-McGee Corporation
Koch Exploration Canada, Ltd.
Ladd Exploration Company
LASMO Canada Inc.
LL&E Canada, Ltd.
Lone Pine Resources Ltd.
Luscar Ltd.
Maligne Resources Limited
Mark Resources Inc.
Maxus Energy Canada Ltd.
* McColl-Frontenac Inc.
Mobil Oil Canada, Ltd.
* Mohawk Oil Co. Ltd.
Morgan Hydrocarbons Inc.
Morrison Petroleum Inc.
Mosbacher Operating Limited
Murphy Oil Company Ltd.
* Newfoundland Processing Limited
New Grade Energy Inc.
Norcen Energy Resources Limited
North Canadian Oils Limited
Northstar Energy Corp.
Norwich Resources Canada Ltd.
Nova Scotia Resources Limited
Novalta Resources Ltd.
Numac Oil & Gas Ltd.
Oakwood Petroleums Ltd.
Ocelot Industries Ltd.
Omega Hydrocarbons Ltd.
Orbit Oil & Gas Ltd.
Paloma Petroleum Ltd.
Panarctic Oils Ltd.
PanCanadian Petroleum Limited
* Parkland Industries Ltd.
Pecten Canada Limited
Pembina Resources Limited
Pennzoil Petroleums Ltd.
* Petro-Canada Inc.
Petrorep (Canada) Ltd.
* Petrosar Limited
Phillips Petroleum Canada Ltd.
Phillips Petroleum Company Western Hemisphere
Phillips Petroleum Resources Ltd.
Placer CEGO Petroleum Limited
Poco Petroleums Ltd.
Ranchmen's Resources Ltd.
Ranger Oil Limited
Renaissance Energy Ltd.
Rife Resources Ltd.
Roan Resources Ltd.
Royal Trust Energy Corporation
Saskatchewan Oil & Gas Corporation
Sceptre Resources Limited
* Shell Canada Limited
Star Oil & Gas Ltd.
Summit Resources Limited
* Suncor Inc.
Texaco Canada Petroleum Inc.
Tintagel Energy Corporation
Total Petroleum (North America) Ltd.
Triiogy Resources Corporation
Triton Canada Resources Ltd.
* Turbo Resources Limited
* Ultramar Canada Inc.
Ultramar Oil and Gas Canada Limited
Union Pacific Resources Inc.
Universal Explorations Ltd.
Unocal Canada Limited
Voyager Energy Inc.
Wainoco Oil Corporation
Webb International Minerals Inc.
Westar Petroleum Ltd.
Westcoast Petroleum Ltd.
Western Deca'ta Petroleum (1977) Limited
Westmin Resources Limited

* Denotes companies included in group of 'Integrateds and Refiners'.
All other companies belong to the category of 'Oil and Gas Producers'